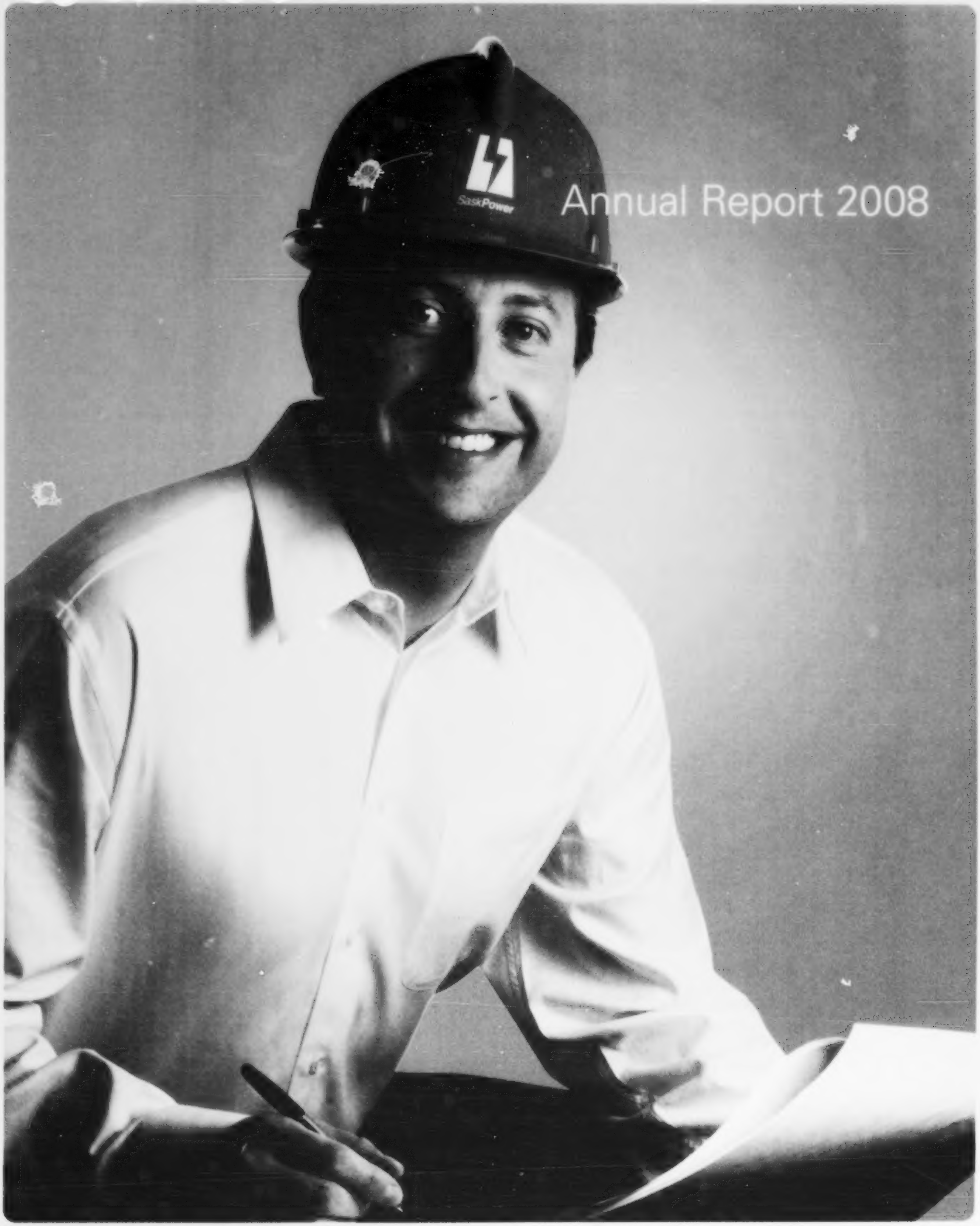


SaskPower
Powering the future

FRONT COVER

The energy of strategic planning and partnerships

In a year of record new service applications, customer connects and peak load, SaskPower continued to develop a well-balanced corporate strategy that will secure our electrical infrastructure and the confidence of our customers.

Doug Opseth, Supervisor, joined his colleagues in Supply Development to launch a new procurement process that is cultivating opportunities for private ownership and investment in new generation facilities. It's just one example of our company's efforts to empower partners, customers and employees in shaping our shared future.

STRATEGIC DIRECTION

Vision

People, innovation and partnerships . . . powering Saskatchewan to a bright future.

Mission

Safe, reliable and sustainable power for our customers.

Values

Responsive, respectful, progressive and accountable in everything we say, do and offer.

Priorities

1. Proud and productive employees.
2. Loyal and satisfied customers.
3. Dependable and secure infrastructure.
4. Strong environmental stewardship and performance.
5. Prudent financial management and growth.

CORPORATE PROFILE

As the principal supplier of electricity in Saskatchewan, SaskPower serves more than 460,000 customers and manages $4.5 billion in assets. We have a team of over 2,500 permanent full-time employees located in 71 communities.

Our company operates three coal-fired power stations, seven hydroelectric stations, four natural gas stations and two wind facilities with an aggregate generating capacity of 3,172 megawatts (MW). SaskPower also has purchase agreements with the Meridian Cogeneration Station, Cory Cogeneration Station, SunBridge Wind Power Project and NRGreen Kerrobert, Loreburn, Estlin, and Alameda Heat Recovery Projects. Total available generation capacity is 3,641 MW.

SaskPower maintains more than 156,000 kilometres of power lines, 52 high voltage switching stations and 182 distribution substations. We also operate three wholly-owned subsidiaries — NorthPoint Energy Solutions, SaskPower International and SaskPower Shand Greenhouse.

STRATEGIC PROGRESS
OUR YEAR AT A GLANCE

At our company, five new Strategic Priorities are guiding SaskPower's ongoing quest for innovation and service excellence.

1. Proud and productive employees.
- Corporate Diversity Strategy developed and rolled out.
- Respectful Workplace Policy launched.
- Leadership succession planning and skill-specific training initiatives continue.
- Deployment of new P25-compliant mobile radio dispatch system concluded in southern half of the province.

2. Loyal and satisfied customers.
- Record $103 million spent on new customer connects.
- Record 16,162 new service applications.
- First full year of Service Delivery Renewal Program completed.
- Over 200,000 compact fluorescent light (CFL) bulbs distributed in communities across Saskatchewan.
- Geothermal and Self-generated Renewable Power Loan Program introduced.
- Funding for Energy Efficiency for New Homes Rebate Program and Net Metering Program enhanced.

3. Dependable and secure infrastructure.
- Record peak load of 3,194 megawatts (MW).
- Integrated supply and transmission plan development begins.
- Wind Power Integration and Development Unit formed.
- Comprehensive North American Electric Reliability Corporation audit conducted.
- Three 5-MW waste heat recovery units commissioned.
- Contracts for the installation of 94 MW of natural gas-fired generation at the Ermine Switching Station awarded.
- Natural gas-fired units of 105 MW at Queen Elizabeth Power Station and 141 MW at a location near North Battleford planned.
- Red Lily Wind Power LP 25-MW power purchase agreement finalized, with commissioning expected in 2011.
- $125-million major upgrade of Poplar River Power Station Unit #1 concluded.
- La Ronge corridor 72-kilovolt (kV) line rebuild completed.
- Pelican Narrows 110-25 kV substation constructed.

4. Strong environmental stewardship and performance.
- One of the first and largest fully integrated carbon capture and sequestration demonstration projects in the world announced.
- Environmental Screening System evaluates environmental impacts and legal requirements for unprecedented number of projects.
- National environmental stewardship award for Emissions Control Research Facility received from industry peers.
- Groundbreaking fish and fish habitat protocol agreement established.
- United Nations sustainability award for SaskPower Shand Greenhouse programming received.

5. Prudent financial management and growth.
- Operating income of $92 million and dividends of $46 million.
- Per cent debt ratio of 60.7%.
- New Independent Power Producer solicitation process launched.
- Over $1-billion spent on Saskatchewan goods and services.

STRATEGIC RESULTS
FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL INDICATORS

(in millions)	2008	2007	Change
Revenue	**$ 1,489**	$ 1,469	$ 20
Operating costs[1]	**1,397**	1,318	79
Operating income[1]	**92**	151	(59)
Net income	**64**	138	(74)
Dividends	**46**	97	(51)
Capital expenditures	**422**	280	142
Gross long-term debt	**2,578**	2,565	13
Operating return on equity[2]	**5.9%**	10.1%	(4.2)%
Return on equity[3]	**4.2%**	9.3%	(5.1)%
Per cent debt ratio[4]	**60.7%**	59.7%	1.0 %

1. Operating costs and operating income are non-GAAP measures, whose nearest GAAP measures are total expense and net income respectively. Operating costs and operating income provide management and shareholders with measurements of operating performance which are readily comparable from period to period. Refer to the non-GAAP measures section on page 55 of the Management's Discussion & Analysis for further discussion of these items.
2. Operating return on equity = (operating income/(average equity), where average equity = [(equity advances + retained earnings – unrealized natural gas risk management activities at year-end) + (equity advances + retained earnings – unrealized natural gas risk management activities at previous year-end)/2].
3. Return on equity = (net income/(average equity), where average equity = [(equity advances + retained earnings at year-end) + (equity advances + retained earnings at previous year-end)/2].
4. Per cent debt ratio = (debt/(debt + equity), where debt = (long-term debt + current portion of long-term debt – debt retirement funds – cash and cash equivalents).

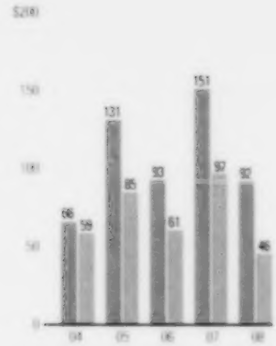
SASKPOWER SUBSIDIARIES' NET INCOME

(in millions)	2008	2007	Change
SaskPower International	**$ 21**	$ 19	$ 2
NorthPoint Energy Solutions	**18**	13	5

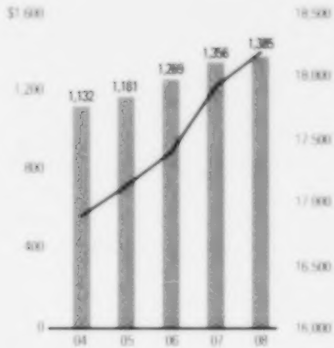
OPERATING STATISTICS

(GWh)	2008	2007	Change
Saskatchewan electricity sales	**18,192**	17,923	269
Exports	**409**	851	(442)
Total electricity sales	**18,601**	18,774	(173)
Gross electricity supplied	**20,480**	20,571	(91)
Line losses	**(1,879)**	(1,797)	(82)
Net electricity supplied	**18,601**	18,774	(173)
Electricity trading purchases	**1,861**	1,909	(48)
Line losses	**(48)**	(12)	(36)
Electricity trading sales	**1,813**	1,897	(84)

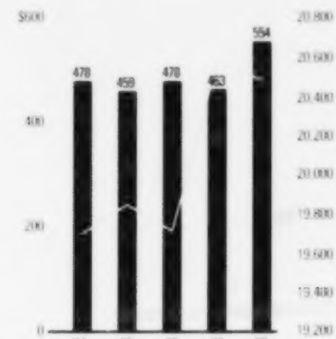
One gigawatt hour (GWh) is equivalent to the energy consumed by 125 typical houses in one year.



OPERATING INCOME AND DIVIDENDS (in millions)
OPERATING INCOME
DIVIDENDS



SASKATCHEWAN ELECTRICITY SALES
SASKATCHEWAN ELECTRICITY SALES (IN MILLIONS)
SASKATCHEWAN ELECTRICITY SALES (GWh)



FUEL AND PURCHASED POWER
FUEL AND PURCHASED POWER (IN MILLIONS)
GROSS ELECTRICITY SUPPLIED (GWh)

2008 CAPITAL EXPENDITURES – $422 million
GENERATION 49%
OTHER 9%
TRANSMISSION AND DISTRIBUTION 42%

CONTENTS

LETTER OF TRANSMITTAL

Regina
March 2009

To His Honour
The Honourable Dr. Gordon L. Barnhart, S.O.M., PhD
Lieutenant Governor of Saskatchewan
Province of Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Saskatchewan Power Corporation for the year ended December 31, 2008. The report includes the financial statements for the year in the form approved by the Treasury Board, duly certified by the auditors of Saskatchewan Power Corporation, all in accordance with *The Power Corporation Act*.

I have the honour to be, Sir, your obedient servant,

Honourable Ken Cheveldayoff
Minister of Crown Corporations

MINISTER'S MESSAGE

It continues to be an exciting, rewarding time in our Crown sector for CIC and its 12 subsidiary Crown corporations. Three Crowns were recognized for excellence in diversity by *Macleans* magazine. In addition, six Crowns were among Saskatchewan's Top 15 Employers for 2009, as selected by the editors of *Canada's Top 100 Employers*. I take pride in the fact that our Crowns' workforces reflect our communities and are recognized as exceptional places to work.

For SaskPower and its employees, 2008 was very much a year spent at the vanguard of a growing provincial economy. Record customer connects, new service applications and peak load provided strong evidence of the re-energized economic environment within Saskatchewan's borders. SaskPower responded by successfully meeting the unique needs of customers large and small, all the while continuing to focus on a mission of providing safe, reliable and sustainable power.

My priority for the future remains the same: to ensure that Saskatchewan's Crown corporations remain publicly owned and provide high quality services at a low cost. This is a promise our Government made to the people of Saskatchewan, and it is a promise we will keep. A current theme in the Crown sector that I expect to continue is growth. By that I mean the changes required within the Crowns to sustain and support Saskatchewan's economic momentum. These changes range from investing in new infrastructure to expanding various services in line with the demand from both our residential and business communities.

Our new Saskatchewan First investment policy for the Crowns also reflects this theme. The policy recognizes that our growing economy presents increasing opportunity for investing in our own province. We will continue to move in that direction.

We understand that readily available and affordable energy remains at the foundation of maintaining current and future economic growth. As a result, in 2009 SaskPower will make the single largest investment in history — $954 million — in our province's electrical system. With more than $8 billion in projected spending to 2018, we are steadfastly committed to the long-term revitalization and expansion of our electrical infrastructure. We believe the resulting strategically-directed expenditures will go a long way toward securing the future of families, farms and businesses throughout Saskatchewan.

As you will see in this report, our Crown sector is financially healthy and ready to meet the challenges and opportunities of the coming years.

I am pleased to present SaskPower's 2008 Annual Report.

Honourable Ken Cheveldayoff
Minister of Crown Corporations

Strategic thinking

By any measure, 2008 was an exceptional year. Faced with unprecedented growth in Saskatchewan, extraordinary demands were placed on SaskPower's infrastructure and services. Meanwhile, in tandem with increased fuel and purchased power expenses, rising operating costs resulted in a decline in operating income to $92 million. Still, our company met the challenges it faced. We were able to declare $46 million in dividends to the Crown Investments Corporation of Saskatchewan while powering our province's growing economy.

Going forward, continuous improvement and service excellence are top of mind. We see ourselves as a fundamentally important part of the infrastructure necessary to sustain economic growth in our province. Our long-term goal is to become one of Canada's leading utilities through outstanding performance in a variety of areas — customer service, dependable infrastructure, environmental responsibility, financial management, employee satisfaction, safety, and community involvement. We are making great strides on many fronts. However, we have much to accomplish in the months and years ahead.

AN AGGRESSIVE PLAN

In the business world, companies can't count on luck. Successful outcomes hinge on an energetic corporate culture and rigorous preparation. During the year, our Board of Directors, senior management, and employees spent a great deal of time discussing, analyzing and revising our corporate strategic direction. Our goal — to design a winning formula for addressing an array of challenges that range from preparing our future workforce to meeting the need for cleaner sources of electricity.

As a result of our collaborative efforts, we are entering 2009 with a new Strategic Plan that will make us a stronger company. At the heart of our blueprint for the future is a set of five Strategic Priorities that will drive our immediate success and help us build toward the achievement of our long-term vision:

1. Proud and productive employees.
2. Loyal and satisfied customers.
3. Dependable and secure infrastructure.
4. Strong environmental stewardship and performance.
5. Prudent financial management and growth.

We are enhancing the transparency of our company's activities by tracking our progress through a new Corporate Balanced Scorecard. Presented in the Management's Discussion and Analysis section of this annual report, it is directly aligned with our Strategic Priorities. Specific measures provide us with yearly targets in areas such as employee engagement, customer satisfaction, new generating capacity, Demand Side Management, and return on equity.

AN ENTERPRISING VISION

In addition to introducing our company's new Strategic Priorities, we have added partnerships to people and innovation as primary ingredients in meeting our vision: "Powering Saskatchewan to a bright future." Whether it be through alliances with the private or public sectors, collaboration will be critical in enhancing our financial capacity, facilitating risk sharing, as well as providing access to cutting-edge technologies and expertise.

A newly-launched generation procurement process is providing a more streamlined and open approach to finding private sector partners to provide peaking and base load generation. We have also introduced a Wind Power Integration and Development Unit to study and assess the effect of wind power on the provincial system. This group invited developers with experience in wind monitoring to participate in a Saskatchewan Wind Data Study that will feed the development of a Wind Power Deployment Strategy in 2009.

Meanwhile, we're continuing to source as many goods and services as possible though Saskatchewan companies. In 2008, SaskPower purchased over 73% of all requirements from

"We have a clear strategy and a set of targets that will position us to continue to deliver safe, reliable, sustainable and affordable power while becoming even more customer driven and entrepreneurial."

within our borders while also developing a new policy to promote more involvement by Aboriginal businesses.

A FIRM FOUNDATION

Our company's balance sheet remains strong. SaskPower has a per cent debt ratio of 60.7%, one of the lowest among government-owned utilities in Canada. In the future, we will strive to generate enough revenue to support the revitalization of our company while simultaneously delivering on our commitment to maintain regionally competitive rates.

To augment our primary Saskatchewan-based revenue stream, we will look to our subsidiary NorthPoint Energy Solutions to develop a growth strategy to further build on its success in energy trading. However, in line with the Government of Saskatchewan's policy of focusing within Saskatchewan for capital investments, our other subsidiary — SaskPower International — has been wound down.

A BRIGHT FUTURE

When it comes to SaskPower, the outlook is positive. We have a clear strategy and a set of targets that will position us to continue to deliver safe, reliable, sustainable and affordable power while becoming even more customer driven and entrepreneurial.

However, our fortunes are not just dependent on goals and measures. In fact, our future is almost solely dependent on our employees. I would like to recognize them for bringing the characteristics of SaskPower's values statement to life: responsiveness, respectfulness, progressiveness, and accountability. I would also like to thank my fellow Board Members, our shareholder, customers, and partners as we prepare our company for tomorrow.

Joel Teal
Chair, Board of Directors

Strategic initiatives

In 2008, SaskPower experienced yet another year of firsts. A record peak load of 3,194 megawatts (MW) was achieved, a record 16,162 new service applications were received, and a record $103 million was spent on customer connects.

These firsts allowed for an impressive demonstration of our company's true strength — our employees. Their dedicated response to tremendous growth in demand for our services occurred throughout all areas of SaskPower. As always, they kept our system online through numerous extremes. From engineering an aggressive timeline for the addition of new generating units to battling severe weather and protecting facilities from forest fires, our employees were unwilling to fail.

DYNAMIC GROWTH

During this unparalleled year, Saskatchewan electricity sales increased to 18,192 gigawatt hours and we added 8,293 new customers. In 2009 and beyond, our company's resilience will continue to be tested. We realize the economic situation of our province and customers will remain fluid. As a result, we will have to be highly adaptive.

While we continue to execute plans to meet the recent growth in demand for electricity, we will also need to revitalize much of our generation, transmission, and distribution infrastructure. With that in mind, in the next year capital expenditures are expected to jump to a record $954 million — more than double the previous high.

In addition to developing a new corporate Strategic Plan that ensures we are aligned with the direction sought by our new Board of Directors and shareholder, the year also saw enhanced preparation targeting specific areas of our business. We are taking a longer-term financial outlook for planning purposes, which allows us to better anticipate and prepare for future challenges while we seek to maximize cost efficiencies. Meanwhile, we are also engaged in long-term integrated transmission and generation supply planning that will define a roadmap for Saskatchewan electricity system and shape our capital requirements.

INNOVATIVE TECHNOLOGIES, PARTNERSHIPS AND PROCESSES

Emissions are a critical issue for SaskPower. We recognize the leadership role we must take in supporting the Government of Saskatchewan's Go Green Program and in meeting the provincial target of reducing greenhouse gas emission levels. How we address these challenges will play a large role in shaping the company we are to become.

As we add new supply and rebuild old infrastructure we have the opportunity to create a new SaskPower — one that is even more sustainable. We are committed to balancing the need to introduce cleaner sources of energy while maintaining security of supply and financial stability.

Our strategies will centre on private and public partnerships that strengthen our company's knowledge base, flexibility in making choices, and economic foundation. SaskPower's new competitive generation procurement process will ensure we meet peaking needs in 2011 and base load needs beginning in 2012 by partnering with private sector developers.

In our industry, environmental progress begins with exhaustive research and development. In 2008, our Emissions Control Research Facility (ECRF) at Poplar River Power Station was recognized with the Canadian Electricity Association's Environmental Commitment and Responsibility Program Stewardship Award.

Our ECRF is acknowledged as a leading North American centre for the study of mercury emissions control. The facility is also evaluating technology related to carbon dioxide, sulphur dioxide and nitrogen oxides. SaskPower's aggressive research into the future of fossil fuels continues in other areas, with our company assessing the potential development of one of the first and largest fully integrated carbon capture and sequestration demonstration projects in the world at Boundary Dam Power Station.

"As we add new supply and rebuild old infrastructure we have the opportunity to create a new SaskPower — one that is even more sustainable."

In the future, the kinds of generation we consider will be lower and non-emitting sources, such as the three 5-MW waste heat recovery units added to our system this year in partnership with NRGreen Power. We will also continue working closely with customers to reduce demand by 100 megawatts by 2017 through a growing number of programs under our SaskPower Eneraction Demand Side Management umbrella.

LEADERSHIP AND TEAMWORK

Our focus on customers also extends to enhancing the quality of their experience with our company. Our Service Delivery Renewal Program is redesigning and modernizing SaskPower's business processes and will involve significant investments in technology to achieve efficiency and service improvements.

The spike in customer requests during this extraordinary year caused us to speed the internal examination of our processes to ensure we could support our developing economy. A significant change involves our policy for connecting to our transmission system. Because of streamlining, large customers are experiencing a much quicker turnaround time for receiving cost estimates and construction start times are being accelerated.

Throughout all of the rapid change occurring at SaskPower, people remain our number one Strategic Priority. We are putting into place significant building blocks that will strengthen our employees' work experience by addressing concerns emerging from engagement surveys. And we are preparing our present and future workforce through a number of initiatives. These include a Performance Management Program, Respectful Workplace Policy, Diversity Strategy, Succession Planning Program and expanded supervisory training.

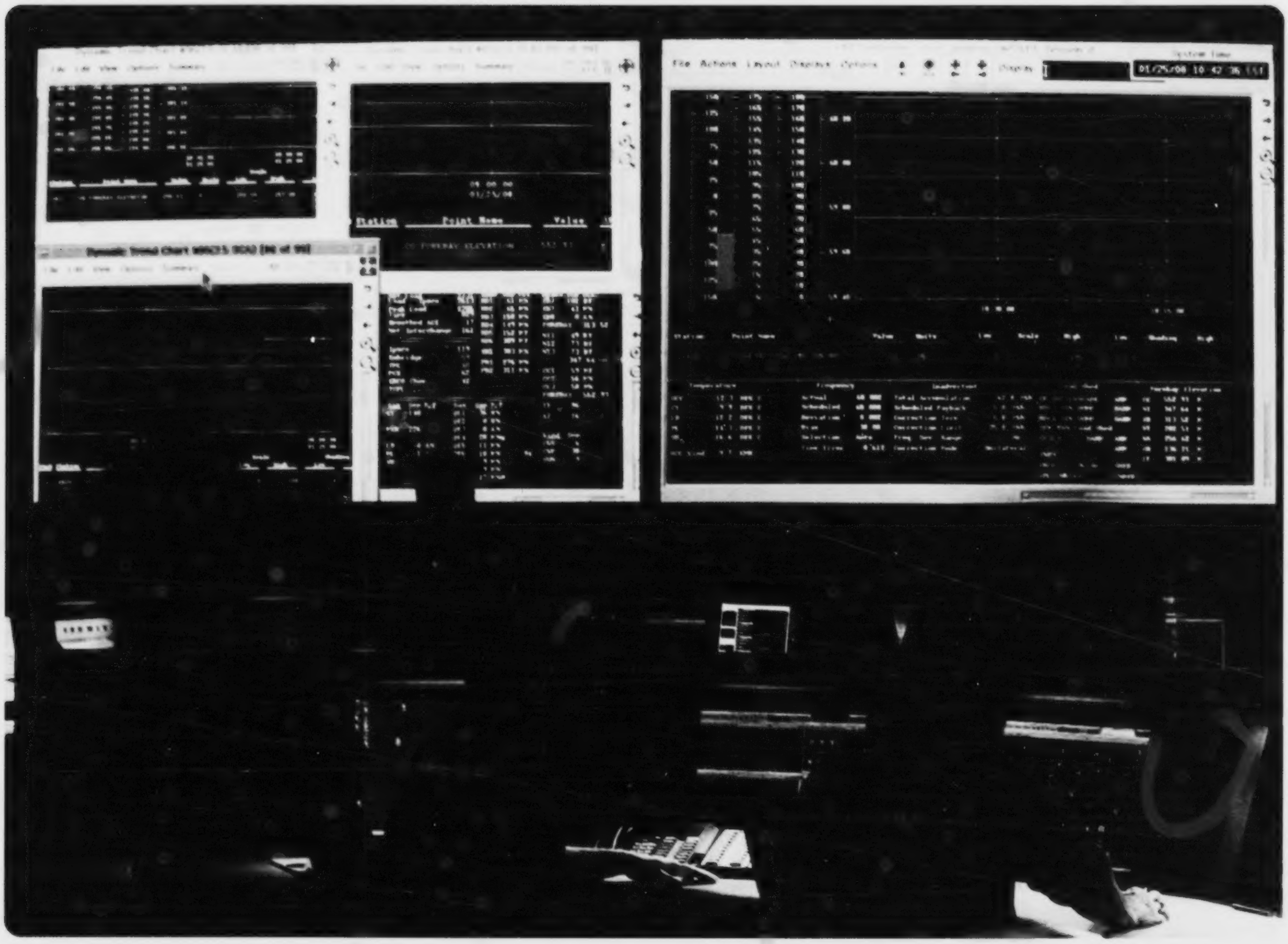
AN ENERGETIC RESULT

Recent Canadian Electricity Association public attitudes research shows SaskPower scoring higher overall customer satisfaction than the national average. The trust that all of our customers demonstrate in our company is something on which we will continue to build.

Our ongoing success is not the result of a singular achievement or a particular individual. Instead, it is the consequence of an enterprising company-wide strategy and team of many that includes employees, partners and customers. The challenges associated with growth and revitalization will be omnipresent in 2009. However, we are ready to capitalize on the opportunities those challenges present.

Pat Youzwa

Pat Youzwa
President and Chief Executive Officer



Setting a powerful strategic course

Not every journey requires a map. But when the success of your business directly impacts the quality of life for an entire province, it's essential to have a sound strategy. And that plan must allow you to adapt to changing conditions while delivering responsible growth, innovative solutions and service excellence.

In 2008, our company continued to hit a number of new marks — record peak load, record customer connects and record service applications. All are reflective of an unprecedented operating climate of expansion and revitalization.

SaskPower's new Strategic Plan provides us with the clear avenue needed to meet present and future challenges. It outlines a 10-year trajectory that provides a common route for achieving our company's long-term vision by using a combination of people, innovation and partnerships to power Saskatchewan to a bright future. And it provides us with the means for measuring progress as we strive to meet our mission of providing safe, reliable and sustainable power to our customers.

The road ahead:
Strategic thinking that leads to a strategic outcome

Our strategic path is redefined each year, with input from our employees, Executive and the Board of Directors. It is also aligned with the direction of the Crown Investments Corporation and Government of Saskatchewan. Presently, five new Strategic Priorities are providing us with a definitive and dynamic central focus as we work to become one of Canada's most progressive utilities.

STRATEGIC PRIORITY 1
PROUD AND PRODUCTIVE EMPLOYEES

Everything our company achieves springs from the efforts of the dedicated people that drive our day-to-day operations. As a result, we are placing a primary emphasis on our current and future personnel. We will build on a proud past by cultivating a workforce that is highly skilled, responsive, passionate, and committed to preserving the trust people invest in us.

During 2008, our company continued to direct significant attention to improving employee engagement. Typically, engaged employees say positive things about their company, want to keep working for their company and strive to do their best work so that their company succeeds. In comprehensive surveys, SaskPower employees have identified areas with the greatest potential for improvement: senior leadership, recognition and performance management.

In response, we are continuing with a variety of initiatives. The Supervisory Essentials course, which includes an online support tool, is mandatory for all in-scope and out-of-scope supervisors. The curriculum aligns with the feedback received from employees. Training includes communication, coaching, goal setting and recognition.

Employee engagement surveys have also identified the need for an enhanced work environment. As a result, our company

David Gwilliam, Supervisor, Recruitment

Strategic human resource initiatives — including Succession Planning and a Performance Management Program — are helping develop SaskPower's future workforce.

developed and introduced a new Respectful Workplace Policy in collaboration with our two unions — the International Brotherhood of Electrical Workers Local 2067 and Communications, Energy and Paperworkers Local 649. Guidelines underscore the need to create an environment where the values of respect, trust, fairness, integrity, consideration, acceptance and dignity lead all actions. In support of the new policy, respectful workplace training has been developed and is required for all employees.

With almost one-third of SaskPower's workforce projected to retire within the next 10 years, effective employee recruitment, retention and development remains critical. Leadership succession planning, workforce planning and skill-specific initiatives — such as the Engineers-In-Training Program and Powerline Apprenticeship Program — are all contributing to the strengthening of our company's human resources.

SaskPower is also moving closer to creating a workforce more representative of the communities we serve. During the year, a new corporate Diversity Strategy was developed and introduced by senior leaders at 10 events throughout the province. The strategy calls for the creation of a culture of inclusion that recognizes and values the abilities of all employees. Meanwhile, targets for diversity attraction and retention were exceeded for a second straight year, while partnerships were announced with the Saskatchewan Indian Institute of Technologies and Saskatchewan Abilities Council Partners in Employment.

Protecting the safety of our employees is also a key to making SaskPower a preferred place to work. Our Safety Management System is registered under the demanding OHSAS 18001 standard. In addition, ongoing communication, training and a comprehensive set of policies and standards are designed to support the belief that all accidents are preventable.

SaskPower is continuing to partner with the Royal Canadian Mounted Police on the creation of a P25-compliant mobile communications radio dispatch system, with implementation now complete in the southern half of the province. Because our company uses radio as the primary means of communication and dispatch for service and trouble calls, the security and reliability of the new system will be integral as we concentrate on enhancing employee safety.

David Gwilliam, Supervisor, Recruitment

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25,000,000

Kilowatt hours saved per year due to SaskPower Energy Performance Contracting Service projects.

STRATEGIC PRIORITY 2
LOYAL AND SATISFIED CUSTOMERS

As a company we exist for one simple reason — to fulfill our commitment to provide safe, reliable and sustainable power. Today, we recognize that we must meet the challenge of rising customer expectations and the revitalization of an aging SaskPower infrastructure. As a result, we are focusing on making it easier for customers to do business with us and providing service that is convenient and responsive.

In 2008, SaskPower completed is first full year of the Service Delivery Renewal (SDR) Program, a multi-year initiative that is transforming the way we do business. It involves a redesign of the way we interact with customers. From the initial point of contact to the final delivery of service, the program involves a multi-million dollar investment in processes, technology, people and management practices. SDR will result in improved communication with customers and a higher overall level of productivity, as well as enhanced timeliness, consistency, choice and reliability of service.

A strengthened Demand Side Management (DSM) Program at our company is also expected to increase overall customer satisfaction. SaskPower Eneraction — a portfolio of energy efficiency, conservation and load management programs — is leading the way. In addition to targeting residential customers, the initiative is directed at assisting commercial and industrial customers to deliver a total 100 megawatts (MW) of savings over 10 years.

During 2008, our company teamed with 1,100 local volunteers to deliver over 200,000 compact fluorescent light (CFL) bulbs in 110 communities throughout Saskatchewan. The estimated annual effect is: 12,000,000 kilowatt hours (kWh) of energy savings; 9,000 tonnes of greenhouse gas (GHG) reductions; and a 6-MW decrease in demand.

Our Power Savings advertising campaign also educated customers about CFLs, as well as how to manage their power costs and help the environment by switching to ENERGY STAR® qualified appliances. A Seasonal LED Exchange Program also ran at 33 retail stores, with residents encouraged to bring in old incandescent strings in exchange for a coupon to be used toward energy efficient LED replacements. Over 24,000 old inefficient light strings were collected and 12,000 LED light string coupons distributed.

Our company's Energy Performance Contracting (EPC) Service is also part of SaskPower Eneraction. It assists commercial and institutional customers in reducing energy-related operating costs through efficiency upgrades. In 2008, EPC contracts were signed with Prince Albert Parkland Health Region and Sunrise Health Region. In addition, a new contract was signed with the Government of Saskatchewan Ministry of Government Services.

Overall, these new projects will produce \$6.5 million in construction and \$575,000 in annual energy savings. Since the inception of EPC, service has been provided to 24 projects at schools, hospitals, hotels, office buildings and a variety of government facilities. To-date, these projects are saving 25 million kWh per year.

Rebecca Fiissel, Leader, SaskPower Eneraction

When it comes to residential customers, our company's Demand Side Management initiatives focus on home energy efficiency

SaskPower Eneraction has introduced a Geothermal and Self-generated Renewable Power Loan Program to encourage smaller-scale, environmentally responsible generation. Eligible homeowners and farm customers can receive a loan for up to $25,000 for installing a geothermal system, as well as a loan of up to $25,000 for installing a renewable system.

SaskPower is also promoting its funding enhancements of the existing provincial Energy Efficiency for New Homes Rebate Program and Net Metering Program. Net metering allows customers who generate their own electricity to feed excess power back to SaskPower's system and bank credits to offset future electricity use. Only environmentally friendly technologies are eligible, and include wind, solar, low impact hydroelectric, biomass, flare gas and heat recovery.

Meanwhile, we continue to make it easier for customers to do business with us by expanding our online service options — such as the MyPower Account. In 2008, our company also launched the New Connects Financing Program. It assists new residential customers whose electricity connection costs exceed $1,000 and commercial customers where connection costs exceed $5,000. The financing options are intended to enhance convenience and affordability. In most cases, billing and payments are included on a customer's electricity bill.

While our mandate stresses the need to consistently improve the service we provide, we also feel it critical to support the communities where our customers live. Through a Corporate Contributions Program with an annual operating budget of over $1 million, we partner with non-profit organizations working in the areas of education, environment, diversity and community involvement (culture, sports and recreation). During the year, contributions helped to fund and support hundreds of events, activities and initiatives across the province.

SaskPower is a presenting sponsor of Skills Canada Saskatchewan, a partnership of business, labour, education, government and students that works to promote the development of technology and trade-based skills. We also continued alliances with the Saskatchewan Institute of Applied Science and Technology's Electrical Engineering Technology Program, the University of Saskatchewan's technology-based SCI-FI Girl Power Program, and the University of Regina Faculty of Engineering.

When it comes to the environment, our company is a primary supporter of the Saskatchewan Environmental Society's Destination Conservation Saskatchewan. The program brings together students, teachers, administrators and custodians to learn about energy conservation and waste reduction in their schools. During the year, SaskPower also partnered with the Saskatchewan Waste Reduction Council, Nature Saskatchewan and Stewards of Saskatchewan.

Our company also continued its support of numerous diversity and community initiatives, including: Saskatchewan Summer Games, Saskatchewan First Nations Winter Games, Special Olympics Saskatchewan, the YWCA's Women of Distinction Awards, National Aboriginal Day, and the Saskatoon and Regina Dragon Boat Festivals.

Rebecca Fiissel, Leader, SaskPower Eneraction

When it comes to residential customers, our company's Demand Side Management initiatives focus on home energy efficiency.

SaskPower Eneraction has introduced a Geothermal and Self-generated Renewable Power Loan Program to encourage smaller-scale, environmentally responsible generation. Eligible homeowners and farm customers can receive a loan for up to $25,000 for installing a geothermal system, as well as a loan of up to $25,000 for installing a renewable system.

SaskPower is also promoting its funding enhancements of the existing provincial Energy Efficiency for New Homes Rebate Program and Net Metering Program. Net metering allows customers who generate their own electricity to feed excess power back to SaskPower's system and bank credits to offset future electricity use. Only environmentally friendly technologies are eligible, and include wind, solar, low impact hydroelectric, biomass, flare gas and heat recovery.

Meanwhile, we continue to make it easier for customers to do business with us by expanding our online service options — such as the MyPower Account. In 2008, our company also launched the New Connects Financing Program. It assists new residential customers whose electricity connection costs exceed $1,000 and commercial customers where connection costs exceed $5,000. The financing options are intended to enhance convenience and affordability. In most cases, billing and payments are included on a customer's electricity bill.

While our mandate stresses the need to consistently improve the service we provide, we also feel it critical to support the communities where our customers live. Through a Corporate Contributions Program with an annual operating budget of over $1 million, we partner with non-profit organizations working in the areas of education, environment, diversity and community involvement (culture, sports and recreation). During the year, contributions helped to fund and support hundreds of events, activities and initiatives across the province.

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156,661

Kilometres of transmission and distribution lines in service.

STRATEGIC PRIORITY 3
DEPENDABLE AND SECURE INFRASTRUCTURE

At SaskPower, we have an extensive province-wide infrastructure that supplies electricity to a vast and wide-ranging geographic service area. Rapid load growth coupled with the need to revitalize many aging assets means our company's infrastructure will continue to undergo a major transformation. We are reviewing a myriad of options through our ongoing supply, transmission and distribution planning processes. Where prudent, we will strive to extend the life of existing infrastructure. We will also ensure that we select the most reliable and environmentally, technologically, economically advantageous future additions while developing a significant role for private sector partners.

Within Saskatchewan, we are presently experiencing a growing demand for electricity. Load is expected to increase by approximately 40% in the next 10 years. As a result, SaskPower is continuing a multi-decade program of infrastructure renewal that will see the need to replace and build or acquire approximately 1,700 MW by 2020 and 3,300 MW by 2030.

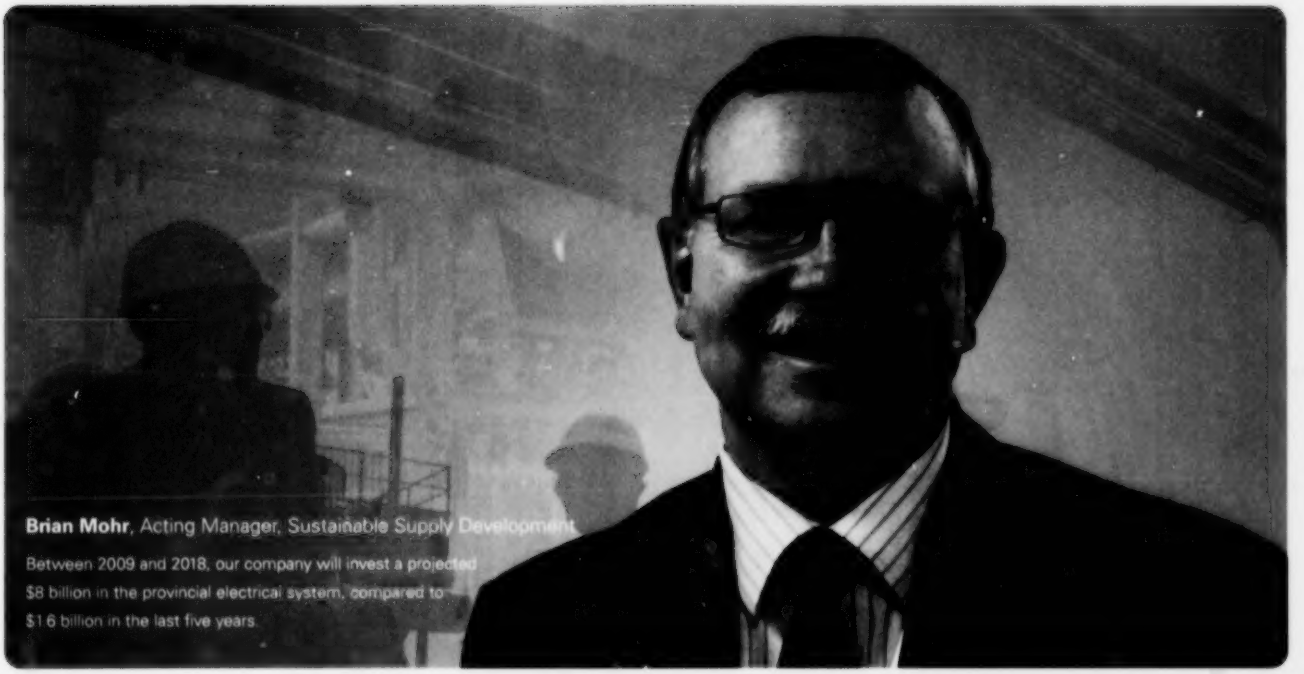
In order to optimize generation and network systems, SaskPower is developing a fully integrated supply and transmission plan. In addition to enhancing DSM programs, future generation sources under consideration include clean coal, polygeneration, cogeneration, natural gas, imports, purchased power, nuclear, large and small hydro, and renewables such as biomass and wind.

When it comes to partnerships, during the year our company unveiled a new procurement process for private sector Independent Power Producers (IPPs) designed to ensure timeliness, fairness and transparency. The first stage consists of a Request for Qualification (RFQ) and is intended to assess the experience and financial capabilities of proponents to develop, own and operate electrical generation facilities. The second stage consists of a Request for Proposal (RFP) and subsequent evaluation before a final selection is made.

In 2008, SaskPower began use of the new procurement process by issuing a competitive RFQ for peaking generation projects sized between 100 MW and 200 MW to be in service for the 2011/2012 winter peak. Of the submissions received, five companies were selected to proceed to the RFP stage.

Our company also issued a competitive RFQ for between 200 MW and 400 MW of intermediate to base load generation to be in service for the 2012/2013 winter peak. Both renewable and non-renewable generation options will be considered. In response, eight proponents were selected to respond to a formal RFP.

In coming years, SaskPower will continue to expand the presence of renewables in our generation portfolio. However,



Brian Mohr, Acting Manager, Sustainable Supply Development

Between 2009 and 2018, our company will invest a projected $8 billion in the provincial electrical system, compared to $1.6 billion in the last five years.

with approximately 172 MW of wind power currently in service, we are experiencing grid operating challenges due to wind's inherent variability. In response, SaskPower has formed the Wind Power Integration and Development Unit (WPIDU) to study and assess the effect of wind power on the provincial system.

The WPIDU has invited developers with experience in wind monitoring in the province to participate in a Saskatchewan Wind Data Study, which will help determine the benefits and feasibility of building future wind facilities in geographically diverse locations. SaskPower will subsequently develop a Wind Power Deployment Strategy that will address the timing, ownership and procurement process for new wind power projects.

This year, our company finalized an agreement with Red Lily Wind Power LP to purchase electricity from a 25 MW facility that will be constructed northwest of Moosomin and operational in 2011. The proposal was initially selected in 2006 under a previous solicitation to partner with IPPs on projects that produce no new greenhouse gas (GHG) emissions. The Red Lily Wind Power Project will help maintain Saskatchewan's position as the control area with the highest percentage of wind power in Canada.

SaskPower is also working to establish a Hydroelectric Development Unit to pursue projects under a variety of construction and ownership models. Our company is in discussions with First Nation groups and their partners regarding potential developments on the Fond du Lac River and Saskatchewan River.

During 2008, SaskPower and NRGreen Power completed construction of three waste heat recovery units at Alliance Pipeline's compressor stations at Loreburn, Alameda and Estlin. One unit was previously commissioned at Kerrobert. Together, the four generate 20 MW using waste heat exhaust in a process that creates no new emissions — enough power to meet the needs of about 20,000 homes.

Our company is also proceeding with plans to install, own and operate three simple cycle gas turbine facilities. We have awarded contracts for the installation of 94 MW of generation at the Ermine Switching Station near Kerrobert. In addition, a 105-MW facility will be installed at Queen Elizabeth Power Station and a 141-MW facility will also be constructed at a site near North Battleford.

Meanwhile, important generation-related refurbishment projects were active during the year. A $125-million upgrade of Poplar River Power Station Unit #1, which has been in service for 25 years, was completed. The rebuild will increase the unit's output, reliability and efficiency while maintaining its viability for another 20 to 25 years. A proposed ash lagoon expansion at Poplar River Power Station will add two new cells with a capacity for 12 million tonnes of storage. At Boundary Dam Power Station, a spillway upgrade is underway that will allow the facility to meet new Canadian Dam Association Guidelines.

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10

Additional megawatts of capacity achieved through rebuild at Poplar River Power Station.

System-wide, our company also remains focused on North American Electric Reliability Corporation (NERC) compliance. Because SaskPower is interconnected to the Midwest Reliability Organization (MRO) and the Midwest Independent Transmission System Operator (MISO), we are obligated to meet developing NERC standards. A comprehensive SaskPower NERC audit was conducted during the year and a report is expected in 2009. Our company is also a full partner in a preliminary study examining the technical, environmental and economic feasibility of a 500 kilovolt (kV) high-voltage direct current (HVDC) transmission line between Calgary and Winnipeg that would run across Saskatchewan.

Rapid economic growth in Saskatchewan in 2008 has also seen SaskPower streamlining design and processes for new connections. Our company is working on a 138 kV transmission connection to supply a customer's pipeline facilities near Cabri. We are also developing a 138 kV transmission connection to supply an expansion on pipeline facilities near Moosomin.

We are also taking steps to improve electrical service and reliability to northern communities. Work is now complete on a $15.6 million project to rebuild the 72-kV power line serving areas north of Prince Albert, along the corridor to La Ronge. The rebuilt transmission line runs 74 kilometres from the Timber Cove Switching Station to the Tracey Road Regulator, approximately 17 kilometres north of Weyakwin.

Construction is also complete on a new 110-25 kV substation at Pelican Narrows. It is expected to improve service quality and result in fewer disruptions for three communities and the surrounding area. Meanwhile, construction of a new 138-25 kV substation at North Battleford is underway.

In order to ensure reliable electric service in the midwestern area of the province, SaskPower has identified the need for a new 138-25 kV substation near Hoosier that will be supplied by a new 138 kV overhead transmission line from Marengo. Our company is also working on major transmission connections to supply electricity for new canola crushing facilities near Yorkton.

In the southern part of the province, SaskPower has selected a preferred corridor for the proposed new 230-kV transmission line between Poplar River Power Station and the Pasqua Switching Station east of Moose Jaw. The 160-kilometre transmission line will improve overall power system reliability and help reduce line losses.

134,074
Tonnes of carbon dioxide saved by flyash sales.

STRATEGIC PRIORITY 4
STRONG ENVIRONMENTAL STEWARDSHIP AND PERFORMANCE

At no time in our company's history has it been more crucial to balance the growing demand for electricity with the needs of our natural environment. In meeting the challenge, we will continue to pursue the development and introduction of cleaner sources of electricity. We will also continue to promote an internal culture of environmental responsibility while working with our customers to reduce their energy use.

For SaskPower, emissions control is one of our key areas of environmental focus. As a result, a detailed new Emissions Plan is being created to strengthen the development of infrastructure strategies. In recent years, our company has demonstrated significant progress in lowering emissions such as sulphur dioxide (SO_2), nitrogen oxides (NO_x) and particulate matter. However, with changing federal regulations and a provincial commitment to reduce GHG emissions, we must make major reductions in the release of carbon dioxide (CO_2).

Presently, coal plays a major role in providing base load generation for Saskatchewan because it is economical and secure. However, the future use of coal is dependent on the emergence of new emissions control technologies. We are taking action by leading the development of one of the world's first and largest fully integrated carbon capture and sequestration demonstration projects at the Boundary Dam Power Station (BDPS).

The $1.4 billion government-industry partnership between the Government of Canada, the Government of Saskatchewan, SaskPower and a number of private sector and other partners proposes to rebuild coal-fired BDPS Unit #3 with CO_2 capture technology, and extend its life by approximately 30 years. This project will demonstrate the technical, environmental and economic performance of the clean coal concept, which could then be used to inform long-term plans for coal-fired generation within SaskPower. The project would reduce GHG emissions by a million tonnes per year while generating up to 100 MW of power.

Participating in a wide range of research and development opportunities will ensure SaskPower is as prepared as possible for future emissions control requirements. Our Emissions Control Research Facility (ECRF) at Poplar River Power Station has attracted international attention after successfully determining a process to meet SaskPower's need for mercury capture.

Hélène Careau, Coordinator, Environmental Programs

SaskPower's Environmental Screening System, which assists in the evaluation of potential impacts and legal requirements, processed an unprecedented number of projects during the year.

In 2008, the ECRF was selected to receive the Canadian Electricity Association's Environmental Commitment and Responsibility Program Environmental Stewardship Award. SaskPower's work on emissions research also includes a leadership role in the Canadian Clean Power Coalition, the Weyburn-Midale CO_2 Monitoring and Storage Project, and the University of Regina's International Test Centre for CO_2 Capture.

When it comes to particulates, we continue to improve the capture of flyash at our coal-fired plants in order to reach rates as high as 99.5%. In 2008, SaskPower International had a record-breaking year of flyash sales. Over 130,000 tonnes were sold, equating to a savings of 134,074 tonnes of CO_2.

Beyond emissions, regulatory development is occurring in many other areas of the industry. In a business setting where changes continues to evolve rapidly, our company's ISO 14001 Environmental Management System provides our company, employees and contractors with the necessary structure to strengthen environmental performance. In addition, our Environmental Policy outlines our company's commitment to comply with applicable laws and prevent pollution, while pursuing continuous improvement.

Our Environmental Screening System (ESS) also continues to play an important role in our day-to-day operations. With a spike in the demand for customer connects in 2008, our ESS processed information for an unprecedented number of projects. The tool was built in-house and uses Geographical Information System technology to assist in the evaluation of potential environmental impacts and legal requirements.

Our company also believes inter-agency collaboration is essential to our success in meeting environmental challenges. During the year, we established a Protocol Agreement and are working on implementing an Action Plan agreed to by SaskPower, Fisheries and Oceans Canada, Saskatchewan Ministry of Environment and the Saskatchewan Watershed Authority. The agreement deals with potential fish and fish habitat issues at our facilities and is the first of its kind in Canada.

Another internal milestone occurred during the year when the SaskPower Shand Greenhouse exceeded the distribution of six million seedlings since opening. In 2008, the greenhouse was also recognized for its role in the classroom when it was presented with an award from the United Nations Regional Centre of Expertise for Education on Sustainable Development. The recognition was received for the SaskPower Shand Greenhouse's Energy and Our Environment Program, which deals with issues surrounding energy use, GHGs and climate change.

$422 million
Capital investment in infrastructure during the year.

STRATEGIC PRIORITY 5
PRUDENT FINANCIAL MANAGEMENT AND GROWTH

During the next decade, our company will engage in multi-billion dollar capital expenditures. In order to maintain a solid financial foundation, we will maintain regionally competitive rates while generating enough revenue to support the revitalization of our company. We will also pursue private sector partnerships while exploiting growth opportunities through energy trading.

In 2008, our company spent $422 million to expand and renew our electrical system. These high levels of spending are expected to grow, with capital expenditures forecast to exceed $8 billion from 2009-2018.

SaskPower's labour and materials costs are rising. Increasing fuel costs — specifically higher natural gas purchase volumes — are also contributing to rising expenses. Recently, our company has integrated more natural gas-fired generation into our supply mix.

To position SaskPower to navigate the challenges associated with rising costs, renewal and expansion, our company will continue to engage in a financial management program that allows SaskPower to maintain a strong per cent debt ratio. With over 90% of revenue coming from Saskatchewan sales, we will continue to endeavour to make any necessary rate adjustments in a regular and moderate way. Meanwhile, to reduce the impact of any rate increases, our company is continuing to help both large and small customers reduce their electrical consumption and power bills through programs like SaskPower Eneraction.

In 2008, an independent Cost of Service methodology review requested by the Saskatchewan Rate Review Panel was completed. It takes place every five years to ensure that each customer class pays a fair reflection for the total cost of electricity. The Rate Review Panel subsequently recommended that SaskPower wait to make any changes to Cost of Service design until our company completes further research into customer load information.

In order to enhance long-term economic analysis, our company has expanded the outlook in the SaskPower Business Plan from five to 10 years. This is expected to provide an improved indication of the impact of financial trends. In order to further enhance corporate transparency and accountability, we have also completed the development of a Chief Executive Office (CEO)/Chief Financial Officer (CFO) Certification Program. Starting in 2009, SaskPower's CEO and CFO will annually verify that our company has developed an appropriate set of internal controls over financial reporting and that the controls are working effectively.

Adele Duczek, Senior Financial Analyst, Corporate and Financial Services

In the face of rising capital expenditures, our company's long-term financial management program is designed to ensure SaskPower maintains a strong per cent debt ratio.

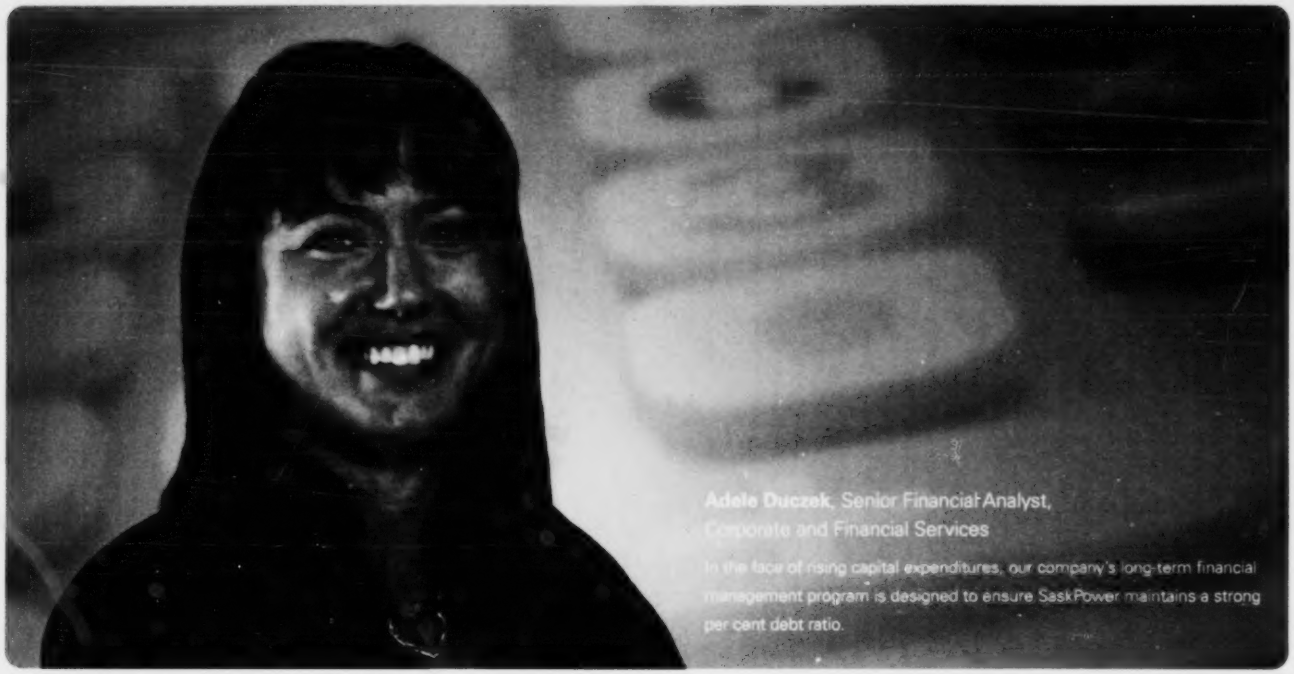
Beginning in 2011, SaskPower will be expected to adopt International Financial Reporting Standards (IFRS) in place of Canadian Generally Accepted Accounting Principles (GAAP). We have commenced a multi-year conversion project that includes a comprehensive implementation plan. Our company has plans to make changes to select processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

When it comes to corporate growth, SaskPower is well positioned to exploit regional opportunities through energy trading and energy products. We are exploring regional opportunities to export Saskatchewan generation using enhanced transmission connections. Meanwhile, subsidiary NorthPoint Energy Solutions continues to act as an energy marketing agent for SaskPower and is focusing on broadening trading throughout North America.

NorthPoint is committed to growth strategies that include an expansion of energy management services for SaskPower to further optimize fuel costs, manage existing and potential new Power Purchase Agreements, and explore future requirements related to emissions management. NorthPoint will also broaden electricity trading by growing in current and new North American markets, while augmenting business lines which could include natural gas trading that optimizes SaskPower's fixed natural gas costs.

Meanwhile, our company has wound down operations of one of our other subsidiaries — SaskPower International (SPI). This is consistent with SaskPower's strategic direction of no longer seeking new external investment opportunities. Responsibilities previously held by SPI are being redistributed to other areas of SaskPower.

In order to maximize the financial impact of our operations within Saskatchewan, our company has a long-standing commitment to source as many goods and services from provincial suppliers as possible. In 2008, SaskPower spent over $1 billion on purchasing Saskatchewan goods and services, representing 73% of total purchases. We have drafted an Aboriginal Procurement Policy and Procedures, with a key objective to foster and promote business development that is reflective of Saskatchewan demographics.



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Corporate governance

At SaskPower, accountability is a key element of our corporate values. As a result, we are committed to the continuous evaluation and strengthening of the corporate governance process at our company. Our goal is to achieve heightened standards of transparency and disclosure while we seek to achieve quality reporting for our shareholder, customers and stakeholders.

THE GOVERNANCE STRUCTURE OF OUR COMPANY

SaskPower is governed by *The Power Corporation Act*. It is subject to the provisions of *The Crown Corporations Act, 1993*, which gives the Crown Investments Corporation (CIC) of Saskatchewan, the holding company for Saskatchewan's commercial Crown corporations, broad authority to set the direction of SaskPower. In practice, directives are normally in the following forms: CIC Crown subsidiary policies applying to all CIC Crowns; CIC Board resolutions and directives; and CIC management directives.

Where required by legislation or policy directive, our company submits performance management and investment decisions for review and approval by CIC and cabinet. Through its Chair, who is an outside Director, the SaskPower Board of Directors is accountable to the Minister of Crown Corporations. The Minister functions as a link between SaskPower and cabinet, as well as the provincial legislature.

A LEADING ROLE

Our company's Board of Directors is responsible for the general stewardship of SaskPower. It is accountable for setting direction, monitoring and evaluating achievement, as well as identifying any necessary corrective action for SaskPower. The Board works with management to develop and approve SaskPower's Strategic Plan, annual budget and Business Plan. It participates in identifying business risks and oversees the implementation of appropriate systems to achieve a balance between risks incurred and potential returns.

SaskPower's Board of Directors is appointed by the Lieutenant Governor in Council pursuant to *The Power Corporation Act*. The Board consists of nine independent Directors. On January 22, 2008, the Board was dissolved and an interim Board appointed. On February 6, 2008, the interim Board was dissolved and a reconfigured Board appointed.

All Board Members are independent of management, including the Chair. The expectations and responsibilities of Directors are outlined in the Terms of Reference for a Director. Board Members receive a comprehensive orientation and continuing education. In addition to being subject to SaskPower's Code of Conduct Policy, Board Members are also bound by the CIC Directors' Code of Conduct. Peer evaluations are completed annually.

Director[1]	**Meetings attended**[2]
Joel Teal, Chair	10
Bill Wheatley, Vice-chair	10
Tammy Cook-Searson	6.5
Judy Harwood	10
Nick Kaufman	10
Bryan Leverick	10
Al Macatavish	10
Mick MacBean	9
Grant McGrath	9.5

1 Directors were appointed February 6, 2008.

2 There were a total of 10 meetings held in 2008.

MANAGING BY COMMITTEE

During the year, the Board gave significant consideration to the strategic direction of SaskPower. Board highlights also included the review of numerous operational, financial, environmental, human resource and governance items. The Board also continues to adopt policies and processes to enable effective communication with the shareholder, stakeholders and the public.

Our company's Board has standing committees to assist in discharging specific areas of responsibility. Both the Board and Audit and Finance Committee regularly have in camera sessions without management present. In 2008, the functions of the Governance Committee and Human Resources/Compensation Committee of the Board were integrated into a single committee — the Governance/Human Resources Committee. As a result, the Board now has three standing committees:

Audit and Finance Committee
Six meetings
Chair: Mick MacBean
Members: Bryan Leverick, Grant McGrath and Bill Wheatley

The Audit and Finance Committee's Terms of Reference mandate the Committee to assist the Board in meeting its responsibilities with respect to financial reporting, internal controls and accountability. The Committee oversees the risk management reporting of SaskPower and directly interacts with the internal and external auditors. The Committee ensures that the Board is provided with financial plans, proposals and information that are consistent with our company's overall strategic planning and public policy objectives.

During 2008, the Committee reviewed annual and interim financial statements, regular risk reporting packages, Corporate Balanced Scorecard reporting, the 2009 Business Plan, as well as the Deloitte & Touche LLP and Provincial Auditor 2007 summaries. The Committee approved the work plan for the Internal Audit Department and monitored quarterly reporting on irregularities. Although there were no significant irregularities in 2008, quarterly reporting enhances and underscores ongoing vigilance in this area.

The Committee is also responsible for reviewing proposed capital and operating, maintenance and administration projects that are material from a risk or value perspective prior to referral to the Board. In 2008, the Committee assessed several significant projects, ensuring that they were aligned with the strategic direction of our company. These included the possible construction of new generation facilities owned by SaskPower, as well as the procurement of new generation from Independent Power Producers.

Another important initiative for the Committee was to review and assess our company's approach to enterprise risk management. More work in this area is expected in 2009.

Environment, Occupational Health and Safety Committee
Three meetings
Chair: Grant McGrath
Members: Tammy Cook-Searson, Nick Kaufman, Judy Harwood and Mick MacBean

The Environment, Occupational Health and Safety Committee is charged with ensuring that our company proactively addresses safety, health and environmental issues and is in compliance with regulatory and statutory requirements.

During the year, highlights included affirming SaskPower's Environmental Policy, monitoring compliance with mining reclamation plans, reviewing management's risk criteria for information reporting, reviewing the biophysical impact of wind power generation, as well as tracking changes to federal environmental legislation.

The Committee also reviewed the safety component of SaskPower's Strategic Plan, assessed progress on the implementation of SaskPower's Safety Management System, monitored incident reporting and approved the establishment of a corporate Safety Council to monitor our company's safety issues.

Governance/Human Resources Committee
Three meetings
Chair: Bryan Leverick
Members: Judy Harwood, Nick Kaufman, Al Macatavish and Bill Wheatley

The Governance/Human Resources Committee is responsible for the development, review and effectiveness of SaskPower's corporate governance practices as well as oversight of human resource strategies, programs and practices.

The Committee's governance-related duties include serving as ethics advisor for the Board, monitoring and evaluating overall Board performance on a bi-annual basis, providing guidance on governance issues to Directors, and recommending governance issues for discussion by the Board or committees. In 2008, its activities included reviewing the SaskPower Governance Manual and recommending updates to the Execution of Documents Resolution. The Committee also reviewed and updated the Terms of Reference for the Board Chair, Committee Chairs and Board committees.

Meanwhile, in consultation with both internal and external legal counsel, the Committee reviewed the Board's procedures for identifying and managing Director conflicts of interest. It is expected that the Committee will develop and recommend a written protocol for conflicts of interest in 2009.

The Governance/Human Resources Committee is also charged with overseeing SaskPower's human resource strategies, programs and practices. Initiatives during the year focused on performance management initiatives and corporate job evaluation.

EVALUATING OUR GOVERNANCE PERFORMANCE

Our company is committed to regularly revisiting key elements of SaskPower's decision-making processes to ensure they continue to meet best practice standards. As a Crown corporation, SaskPower is not required to comply with Canadian Securities Administrators (CSA) Governance Guidelines. However, we use these guidelines to benchmark our governance practices.

Our company's practices are substantially consistent with CSA standards, as set out in the following scorecard:

CSA national policy 58-201 Part 3 – Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
Composition of the Board 3.1 The Board should have a majority of independent Directors.	The Board is comprised of nine independent Directors.	**Yes**
3.2 The Chair of the Board should be an independent Director. Where this is not appropriate, an independent Director should be appointed to act as "lead Director." However, either an independent Chair or an independent lead Director should act as the effective leader of the Board and ensure that the Board's agenda will enable it to successfully carry out its duties.	The Chair of the Board is an independent Director.	**Yes**
Meetings of independent Directors 3.3 The independent Directors should hold regularly scheduled meetings at which non-independent Directors and members of management are not in attendance.	All members are independent.	**Yes**
Board mandate 3.4 The Board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:	The Board has a written mandate in its Terms of Reference, where it explicitly acknowledges that the Board of Directors functions as a steward of the Corporation as well as communicating the following:	**Yes**
(a) to the extent feasible, satisfying itself as to the integrity of the Chief Executive Officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization.	The Terms of Reference for a Director state that Directors shall require "of themselves and Corporate employees high standards of ethical behaviour ..." The President and CEO Mandate also places accountability on that position for ensuring activities and practices of the Corporation are ethical and compliant with the law.	**Yes**

CSA national policy 58-201 Part 3 — Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
(b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;	The Board, working with the Executive, provides strategic direction to SaskPower as a corporation. Formally, this is accomplished with the annual approval of the Strategic Plan in the 4th quarter. SaskPower's revitalized process involves frequent reviews of strategic direction and issues on a regular basis. This ensures a more rounded and comprehensive examination of the issues and helps assure continuity and familiarity in contrast to the once-a-year approach. Development of the Strategic Plan is a continuous improvement process with further progress expected in 2009.	Yes
(c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;	The Board identifies principal risks to the Corporation on an annual basis. Either directly or through the Audit and Finance Committee, the Board monitors the Corporation's risk management programs. It also oversees the implementation of risk-management systems. The Audit and Finance Committee meets regularly to review reports and discuss significant risk concerns with both the internal and external auditors.	Yes
(d) succession planning (including appointing, training and monitoring senior management);	The Board Terms of Reference state that the Board is responsible for succession planning.	Yes
(e) adopting a communication policy for the issuer;	Pursuant to the Board Terms of Reference, the Board adopts policies and processes to enable effective communication with Crown Investments Corporation of Saskatchewan (CIC), stakeholders and the public.	Yes
(f) the issuer's internal control and management information systems; and	The Board has approved an internal control program. SaskPower has documented and evaluated the design of the Corporation's internal controls over financial reporting, including the adequacy of its information systems. The Corporation has developed a testing program to regularly evaluate the effectiveness of these controls. Starting in 2009, SaskPower's CEO and CFO will annually verify that our company has developed an appropriate set of internal controls over financial reporting and that the controls are working effectively.	Yes
(g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.[1]	The Governance/Human Resources Committee is responsible for and reports to the Board on corporate governance matters. The Committee also functions as the ethics advisor for the Board.	Yes
The written mandate of the Board should also set out: (i) measures for receiving feedback from stakeholders (e.g., the Board may wish to establish a process to permit stakeholders to directly contact the independent Directors), and	The Board assumes responsibility for adopting policies and processes to enable effective communication with the shareholder, stakeholders and the public. To facilitate feedback from employees, the Board has adopted a whistle blower policy.	Yes
(ii) expectations and responsibilities of Directors, including basic duties and responsibilities with respect to attendance at Board meetings and advance review of meeting materials. In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in National Policy 51-201 Disclosure Standards.	Expectations and responsibilities of Directors, including participation in and preparation for meetings, are outlined in the Terms of Reference for a Director.	Yes

1. Issuers may consider appointing a Corporate Governance Committee to consider these issues. A Corporate Governance Committee should have a majority of independent Directors, with the remaining members being "non-management" Directors.

CSA national policy 58-201 Part 3 — Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
Position descriptions 3.5 The Board should develop clear position descriptions for the Chair of the Board and the Chair of each Board Committee. In addition, the Board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The Board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.	In 2008, the Governance/Human Resources Committee reviewed Terms of Reference for the Board Chair as well as Committee Chairs. These have been approved by the Board. In 2003, the Board adopted a President and CEO Mandate. In 2008, the Board enumerated specific goals and objectives for the CEO to form a basis for evaluation and compensation. Lead responsibility for this lies with the Governance/Human Resources Committee.	Yes
Orientation and continuing education 3.6 The Board should ensure that all new Directors receive a comprehensive orientation. All new Directors should fully understand the role of the Board and its committees, as well as the contribution individual Directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its Directors). All new Directors should also understand the nature and operation of the issuer's business.	The Governance/Human Resources Committee Terms of Reference state that it shall recommend a Director orientation and continuing education policy. In 2008, with the appointment of seven new Directors, a comprehensive full-day orientation to corporate issues and approval processes was designed and delivered by management. Comprehensive briefing binders were also provided to new members covering key aspects of the Corporation's business.	Yes
3.7 The Board should provide continuing education opportunities for all Directors, so that individuals may maintain or enhance their skills and abilities as Directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.	In 2008, Directors participated in four separate development sessions sponsored by CIC. These are designed to ensure Directors stay up-to-date with best practice developments in corporate governance. In addition, the Corporation provides opportunities to participate in site visits and tours. The Board also receives industry-specific briefings as a backdrop for policy and investment decisions.	Yes
Code of Business Conduct and Ethics 3.8 The Board should adopt a written Code of Business Conduct and Ethics (a Code). The Code should be applicable to Directors, officers and employees of the issuer. The Code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:	SaskPower has a written Code of Conduct Policy applicable to Directors, officers and employees. It is intended to provide both general and specific guidelines to protect and guide SaskPower personnel faced with ethical, moral and legal dilemmas during the course of their employment or in carrying out their duties. The Board has the responsibility to annually review and, as required, revise the Code. In 2006, the Board further strengthened this directive by adopting a whistle blower policy and implementing an anonymous reporting process to help deter wrongdoing. Quarterly irregularity reporting has been implemented to keep the Board informed of compliance issues.	Yes
(a) conflicts of interest, including transactions and agreements in respect of which a Director or Executive Officer has a material interest;	The Code addresses conflict of interest. In 2008, the committee reviewed the Board's process for identifying and managing Director conflicts of interests. It is expected that recommendations will be made to the Board for updating these processes in 2009. In addition, Board members complete and file an annual conflict of interest declaration with the office of the General Counsel as well as declare any conflicts on the spot as they may arise in a meeting setting. Board members are also bound by the CIC Directors' Code of Conduct.	Yes
(b) protection and proper use of assets and opportunities;	Property and inventions are covered in the Code as well as the appropriate use of business assets.	Yes
(c) confidentiality of corporate information;	Confidentiality is covered in the Code, including SaskPower information that contains third party information and personal information about personnel and customers.	Yes

CSA national policy 58-201 Part 3 – Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;	Fair dealing is covered in the General Conduct Principles section of the Code as follows: "SaskPower expects Personnel to conduct themselves ...in a manner that is and is perceived to be fair and evenhanded, and to carry on their activities within the scope of their duties and in compliance with applicable laws and this Code and Related Policies. The public is entitled to expect and receive ...fair and equitable treatment and compliance with confidentiality expectations and laws, whether in the provision of services or in the acquisition of property."	**Yes**
(e) compliance with laws, rules and regulations; and	The Code requires Directors, officers and employees to comply with applicable laws and related policies.	**Yes**
(f) reporting of any illegal or unethical behaviour.	The Policy on Irregularities Reporting, which is appended to the Code, places an onus on employees to report suspected illegal or unethical behaviour.	**Yes**
3.9 The Board should be responsible for monitoring compliance with the Code. Any waivers from the Code that are granted for the benefit of the issuer's Directors or Executive Officers should be granted by the Board (or a Board committee) only. Although issuers must exercise their own judgement in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a Director or Executive Officer which constitutes a material departure from the Code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the Code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things: • the date of the departure(s), • the party(ies) involved in the departure(s), • the reason why the Board has or has not sanctioned the departure(s), and • any measures the Board has taken to addressor remedy the departure(s).	The Governance/Human Resources Committee's Terms of Reference state that it shall monitor and report annually to the Board concerning compliance with the "Director's Code of Conduct" and to "review and report to the Board on conflict of interest matters involving Directors." There were no waivers granted in 2008 with respect to Code compliance by Directors, Officers or employees.	**Yes**
Nomination of Directors 3.10 The Board should appoint a Nominating Committee.	The mandate of the Governance/Human Resources Committee as stated in its Terms of Reference includes reviewing and recommending qualified potential candidates for the Board. The names of recommended candidates are submitted by the Board to CIC as shareholder. The appointment and removal of Directors is ultimately the prerogative of the Lieutenant Governor in Council, as established by statute.	**Substantial compliance**
3.11 The Nominating Committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the Board. In addition, the Nominating Committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate Directors, the selection and nomination of those Directors need not involve the approval of an independent Nominating Committee.	The Board has a written charter in its Terms of Reference which includes all terms referred to in the CSA guideline, except authority to delegate to individual members and subcommittees and authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. The Board Terms of Reference do state that any committee can obtain the advice and counsel of external advisors. However, it states the decision to engage such advisors rests with the Board.	**Substantial compliance**

CSA national policy 58-201 Part 3 — Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
3.12 Prior to nominating or appointing individuals as Directors, the Board should adopt a process involving the following steps: (a) Consider what competencies and skills the Board, as a whole, should possess. In doing so, the Board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.	A skills and competency evaluation has been the foundation of the recruitment process in filling vacancies. The Governance/Human Resources Committee regularly reviews the composition and skill sets of its Directors. A gap analysis is done with a view to identifying candidates with the required skill sets. Since seven out of nine Board members were new to the board at the time of their appointment in 2008, a skills and needs assessment was not completed by the Committee in 2008. This will likely be done once the Committee Members have had sufficient opportunity to evaluate the current skills of the Board as well as the needs of the company.	Yes
(b) Assess what competencies and skills each existing Director possesses. It is unlikely that any one Director will have all the competencies and skills required by the Board. Instead, the Board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each Director, as these may ultimately determine the boardroom dynamic.	The Governance/Human Resources Committee, with assistance from the Corporate Secretary, maintains and updates a skills matrix of existing members. As needed, it conducts a gap analysis to identify skills required for future appointments to round out the Board's overall skill set.	Yes
The Board should also consider the appropriate size of the Board, with a view to facilitating effective decision making. In carrying out each of these functions, the Board should consider the advice and input of the Nominating Committee.	The Terms of Reference for the Governance/Human Resources Committee state that it shall recommend the size of the Board.	Yes
3.13 The Nominating Committee should be responsible for identifying individuals qualified to become new Board Members and recommending to the Board the new Director nominees for the next annual meeting of shareholders.	Responsibility for recruitment and nomination of new Board Members is assigned to the Governance/Human Resources Committee in its Terms of Reference.	Yes
3.14 In making its recommendations, the Nominating Committee should consider: (a) the competencies and skills that the Board considers to be necessary for the Board, as a whole, to possess; (b) the competencies and skills that the Board considers each existing Director to possess; and	The Terms of Reference for the Governance/Human Resources Committee require the Committee to: "Recommend to the Board the size, composition, required capabilities and compensation of the Board of Directors to meet the needs of the Corporation."	Yes
(c) the competencies and skills each new nominee will bring to the boardroom. The Nominating Committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a Board Member.	A review of skills and competencies is the basis for determining the skill sets needed in filling a vacancy. The Governance/Human Resources Committee ensures that potential nominees understand the requirements of the position and have sufficient time and resources to devote to their duties.	Yes
Compensation 3.15 The Board should appoint a Compensation Committee composed entirely of independent Directors.	All members of the Governance/Human Resources Committee are independent Directors.	Yes

CSA national policy 58-201 Part 3 – Corporate Governance Guidelines	SaskPower's corporate governance practices	Consistent with CSA guidelines?
3.16 The Compensation Committee should have a written charter that establishes the Committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or subcommittees), and the manner of reporting to the Board. In addition, the Compensation Committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	The Terms of Reference for the Governance/Human Resources Committee incorporate a written charter, which includes all items referred to in the CSA guideline (with the exception of member appointment and removal, which is established by statute). The Board Terms of Reference state that any committee can obtain the advice and counsel of external advisors. However, the Terms state the Board, rather than the Committee, shall determine the advisability of engaging external advisors.	**Substantial compliance**
3.17 The Compensation Committee should be responsible for: (a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the Board with respect to) the CEO's compensation level based on this evaluation;	The Governance/Human Resources Committee's Terms of Reference state that the CEO's review is based upon agreed-upon objectives, updated each year. While CEO compensation was not addressed specifically, the Committee had the responsibility to review and monitor all management compensation and benefit programs. As SaskPower is not a publicly-traded company, the parameters for CEO compensation are set by its shareholder, CIC.	**Yes**
(b) making recommendations to the Board with respect to non-CEO officer and Director compensation, incentive-compensation plans and equity-based plans; and	The Committee has the responsibility to annually review and monitor management compensation and benefit programs and make recommendations to the Board. The Governance/Human Resources Committee is also responsible for recommending Director compensation to the Board. CIC, as shareholder, sets Director remuneration.	**Yes**
(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.	The compensation of Executive members and all employees earning more than $50,000 per year is annually disclosed to the Crown and Central Agencies Committee of the Legislative Assembly, and ultimately the public, through payee disclosure. In addition, the President and CEO — and direct reports — are required to file their employment contracts, and any amendments thereto, with the Clerk of the Executive Council pursuant to *The Crown Employment Contracts Act*.	**Not applicable**
Regular Board assessments 3.18 The Board, its committees and each individual Director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:	The Governance/Human Resources Committee coordinates the assessment process with the assistance of an external service provider. A peer assessment is conducted on an annual basis. A Chair assessment is done in alternating years.	**Yes**
(a) in the case of the Board or a Board committee, its mandate or charter; and	Board and Board committee performance evaluations are conducted on a 2-year cycle, per CIC guidelines.	**Yes**
(b) in the case of an individual Director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the Board.	Peer evaluations are completed annually.	**Yes**

BOARD OF DIRECTORS

As at December 31, 2008

Full biographies are available at saskpower.com.

Joel Teal
Chair
Saskatoon, Saskatchewan

Joel Teal is the President of Dundee Developments/Homes by Dundee, where he has worked since 1996. Dundee has operations located in Calgary, Edmonton, High River, Regina and Saskatoon. Prior to this, Mr. Teal was the President and CEO of Preston Developments.

Bill Wheatley
Vice-chair
Regina, Saskatchewan

Bill Wheatley is Managing Director, Chief Compliance Officer and General Counsel at Greystone Managed Investments Inc., a local firm with more than $28 billion in assets under management and clients across Canada. Mr. Wheatley has headed the Greystone real estate investment team, managed the firm's operations and developed a compliance department.

Tammy Cook-Searson
La Ronge, Saskatchewan

Chief Tammy Cook-Searson is the first woman to lead the Lac La Ronge Indian Band, one of the largest and most progressive First Nations Bands in Canada. Prior to her present role, she served as a social worker and an elected Band Councillor for eight years. As an entrepreneur, Chief Cook-Searson has owned and operated a marina since 1993.

Judy Harwood
Saskatoon, Saskatchewan

Judy Harwood works for PR Developments of Saskatoon as Director of Operations for the West Harvest Group of Hotels. She oversees the key operations of five hotels in Edmonton, Lloydminster, Regina and Saskatoon.

Nick Kaufman
Regina, Saskatchewan

Nick Kaufman is an Associate Counsel at McCrank Stewart Johnson Barristers and Solicitors in Regina. Mr. Kaufman was the Vice-president of Law at SaskPower from 1989 to 1991. He has also held the positions of Partner and Senior Counsel at Rendek McCrank Barristers and Solicitors and Associate at Balfour Moss.

Bryan Leverick
Saskatoon, Saskatchewan

Bryan Leverick is the President of Saskatchewan-based Alliance Energy Ltd. and has been with the company since 1974. Mr. Leverick serves on the Electrical Trade Advisory Board and the Electrical Curriculum Committee. He is also a Member of the Board of the Canadian Electrical Contractors as Past Chairman and a Board Member of the Saskatoon Regional Economic Development Authority.

Al Macatavish
Winnipeg, Manitoba

Prior to his retirement in 2000, Al Macatavish was Vice-president of Transmission and Distribution at Manitoba Hydro. He has been a Member of the SaskPower Board of Directors since 2001. Mr. Macatavish is a Member of the Advisory Board of the Institute of Technology Centre for the Province of Manitoba and for the High-Voltage Direct Current Research Centre.

Mick MacBean
Swift Current, Saskatchewan

Mick MacBean is the founder, CEO, and Director of Diamond Energy Services. The business is headquartered in Swift Current, where it operates rigs and coiled tubing units in Saskatchewan and Alberta. Mr. MacBean sits on the Alternative Energy Advisory Committee for the City of Swift Current and is the Director and Chair of the Audit Committee for Peyto Energy Trust, a large natural gas producer.

Grant McGrath
Rosetown, Saskatchewan

Grant McGrath is the President and General Manager of Western Sales Ltd. He joined the company as a salesman, became Sales Manager and subsequently took an equity position in the company. In 2000, Mr. McGrath acquired majority ownership of the business, which has retail locations in Biggar, Central Butte, Davidson, Elrose and Outlook.

Directors are paid an annual retainer and per diems.

- The Board Chair receives an annual retainer of $11,000 and a $900 meeting fee.
- The Vice-chair and other Board Members receive an annual retainer of $8,000 and a $700 meeting fee.
- Committee Chairs receive an $800 Committee Chair meeting fee.

EXECUTIVE TEAM

As at December 31, 2008

Full biographies are available at saskpower.com.

Pat Youzwa

President and Chief Executive Officer, SaskPower

Pat Youzwa joined SaskPower in 1999 and held a number of executive positions before moving into her current role in 2004. Prior to joining our company, Ms. Youzwa held a number of positions with the public service of the Government of Saskatchewan, including Deputy Minister of Economic Development and Deputy Minister of Energy and Mines. With a Bachelor of Arts with Honours in economics and a Master of Arts in economics, she has also run a business consulting company.

Mike Marsh

Vice-president, Transmission and Distribution

A mechanical engineer and MBA holder, Mike Marsh was appointed Vice-president of Transmission and Distribution in 2007. He previously held the position of Manager, Business and Financial Planning, as well as supervisory roles in engineering and maintenance with Power Production. Prior to joining SaskPower, Mr. Marsh was employed in the construction industry in Alberta and Saskatchewan.

Judith A. May

Vice-president, Customer Services

Judith May was appointed to the position of Vice-president of Customer Services in 2004. Since joining SaskPower in 1981, she has served as the Manager of Call Centres and Collections, as well as a series of positions within the Customer Services. Holding a Bachelor of Administration, Ms. May has acted as Chair of the Canadian Electricity Association Customer Council.

Garner Mitchell

Vice-president, Power Production

President and Chief Executive Officer, SaskPower International

A registered professional engineer in Saskatchewan, Garner Mitchell has held various positions with SaskPower involving both business and management responsibilities and spanning areas from maintenance, to construction and engineering, to power station operations. Mr. Mitchell served as Vice-president, Project Development and Operations, with SaskPower International before being appointed to Vice-President, Power Production, in 2001.

Michael Monea

Vice-president, Integrated Carbon Capture & Sequestration Project

Michael Monea was appointed Vice-president of the Integrated Carbon Capture and Sequestration Project in 2008. He holds professional engineer and geoscientist designations, a well as a Bachelor of Science. Prior to his role with SaskPower, Mr. Monea was Senior Vice-president with Canada Capital Energy Corporation. He served as Executive Director of the Petroleum Technology Research Centre at the University of Regina and has held a number of other executive and technical positions in the oil and gas sector.

Grant Ring

Acting Vice-president and Chief Financial Officer, Corporate and Financial Services

President and Chief Executive Officer, NorthPoint Energy Solutions

Grant Ring was appointed Acting President and Chief Executive Officer of subsidiary NorthPoint Energy Solutions in 2007 and Acting Vice-president and Chief Financial Officer, Corporate and Financial Services, in 2008. The Certified Management Accountant and MBA holder previously held the position of Treasurer, Financial Services. Prior to joining SaskPower in 1990, Mr. Ring was employed in various accounting positions in private sector manufacturing and construction.

Gary Wilkinson

Vice-president, Planning, Environment & Regulatory Affairs

Employed by SaskPower since 1973, Gary Wilkinson was appointed to his current position in 2007. An electrical engineer, Mr. Wilkinson was involved in the creation and set-up of subsidiary NorthPoint Energy Solutions and served as its President and Chief Executive Officer. Mr. Wilkinson has also held a variety of positions in other areas of the company, including system operations, decision support, bulk power management, as well as high voltage transmission, generation, and communications and control planning.

Appointed January 12, 2009

Sandeep Kalra

Vice-president and Chief Financial Officer, Finance and Enterprise Risk Management

Appointed February 4, 2009

Tom Kindred

Vice-president and CIO, Corporate Information and Technology

Appointed March 2, 2009

Philip Davies

Vice-president, Legal, Land and Regulatory Affairs

General Counsel and Assistant Secretary

Kevin Doherty

Vice-president, Corporate Relations

Salary ranges for SaskPower's executive team, as of December 31, 2008, are:

- President and Chief Executive Officer: $223,590 to $279,488
- Vice-president: $161,544 to $237,564

Management's discussion & analysis

February 13, 2009

The following is a discussion of the consolidated financial condition and results of the operations of Saskatchewan Power Corporation (SaskPower; the Corporation) for the year ended December 31, 2008. It should be read in conjunction with the audited financial statements and accompanying notes. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

This MD&A contains forward-looking statements based on the Corporation's estimates and assumptions concerning future results and events. Due to the risks and uncertainties inherent in any forecasted outlook, the actual results of the Corporation could differ materially from those anticipated. These risks and uncertainties include natural gas prices; coal and hydro availability; weather; economic conditions; number of customers; and market conditions in other jurisdictions.

INTRODUCTION

CORE BUSINESS

SaskPower is a vertically integrated electric utility dedicated to providing generation, transmission, distribution and retail services to more than 460,000 customers in Saskatchewan. Over 2,500 permanent full-time employees are employed in three business units, four corporate groups and three wholly-owned subsidiaries — SaskPower International, NorthPoint Energy Solutions and SaskPower Shand Greenhouse.

Our company manages more than $4.5 billion in assets, operating or buying supply from a generating fleet that uses a wide range of fuels. As a result, this diversity of sources provides a natural hedge against supply and price volatility, protecting customers from some of the risk inherent in any single fuel.

OUR OPERATING STRUCTURE

SaskPower traces its origins to the Saskatchewan Power Commission that was founded in 1929. In 1949, our company was incorporated as a provincial Crown corporation under the authority and mandate of *The Power Corporation Act* (the Act). The Act has had a number of modifications over its lifetime. However, SaskPower's mission — to deliver power in a safe, reliable and sustainable manner — has not fundamentally changed.

The Act grants SaskPower the exclusive franchise and obligation within the province (except for the City of Saskatoon and the City of Swift Current) to supply, transmit and distribute electricity, as well as to provide retail services to customers. The reseller class of customer is restricted to two cities that retained their municipal franchise — the City of Swift Current and the City of Saskatoon.

Our company's vision, mission and values flow from the Act and SaskPower's relationship with its parent company, Crown Investments Corporation of Saskatchewan (CIC). We support the strategic direction provided by CIC. In turn, CIC is responsive to general government direction as articulated in a variety of ways, such as through the annual Speech from the Throne, or with formal policy statements.

The President and Chief Executive Officer of SaskPower reports to a Board of Directors appointed by the Lieutenant Governor in Council pursuant to the Act. Through the Chair, our company's Board of Directors is accountable to the Minister of Crown Corporations. The Minister functions as a link between SaskPower and cabinet, as well as the provincial legislature.

OUR CAPABILITY TO DELIVER RESULTS

SaskPower's available generation capacity is 3,641 megawatts (MW). This includes 3,172 MW available from our company's own assets — three coal-fired stations, seven hydro stations, four natural gas stations and two wind generation facilities.

SaskPower also has an available generation capacity of 469 MW through long-term power purchase agreements. Facilities producing the electricity are the gas-fired Cory Cogeneration Station near Saskatoon; the gas-fired Meridian Cogeneration Station at Lloydminster; the SunBridge Wind Power Project near Swift Current; and the NRGreen Kerrobert, Loreburn, Estlin and Alameda Heat Recovery Projects.

Our company maintains 156,661 kilometres of power lines (12,311 kilometres transmission and 144,350 kilometres distribution) in Saskatchewan. Transmission lines are high voltage lines (over 25,000 volts) that transport large volumes of electricity from generating stations to load centres — cities, towns or large industrial or commercial customers.

Distribution lines are lower voltage lines (under 25,000 volts) that take electricity in smaller quantities to residential users and smaller commercial consumers. The challenge of managing the system is considerable because of the geographic size of the province, location of various sources of generation, and dispersed and relatively small population.

SaskPower has interconnections at the Manitoba, Alberta and North Dakota borders. These provide our company with the capability to import or export electricity to meet higher internal demand or take advantage of export market opportunities.

Under normal system conditions, the import capability is 300 MW from Manitoba, 75 MW from Alberta and 150 MW from North Dakota. The import from Manitoba and North Dakota is interdependent; the capabilities cannot be achieved simultaneously. The export capability is 225 MW to Manitoba, 153 MW to Alberta and 150 MW to North Dakota.

These interconnection capabilities vary with system conditions, including generation and load level. In compliance with the open access transmission tariff (OATT), SaskPower is required to compete with other suppliers for access to these interconnections. The OATT enables competitors to schedule access to our company's transmission system, allowing them to wheel power through Saskatchewan or sell to SaskPower's wholesale (reseller) customers.

2008 AVAILABLE GENERATION CAPACITY – 3,641 MW

- COAL 46%
- GAS 25%
- HYDRO 23%
- WIND 5%
- OTHER 1%

SaskPower uses a diversified portfolio of assets to meet its generation requirements.

ECONOMIC BENEFITS FOR OUR PROVINCE

In 2008, over $1 billion flowed from SaskPower into the provincial economy. This occurred through the procurement of over 73% of goods and services from Saskatchewan suppliers; the payment of wages and benefits to employees; the purchase of coal; and the acquisition of electricity from Independent Power Producers.

Our company's contributions also included $17 million in grants-in-lieu of taxes payable to local governments, as well as approximately $54 million in coal royalties, water rentals and provincial corporate capital tax payable directly to the Province of Saskatchewan. In addition, we collected $42 million in municipal surcharges for redistribution to 406 cities, towns and villages.

RATE REVIEW PROCESS

Electricity pricing in Saskatchewan is subject to review by the Saskatchewan Rate Review Panel (the Panel) with final approval by cabinet. In January 2009, SaskPower submitted a rate application to the Panel requesting a 13.0% system-wide rate increase effective May 1, 2009. The rate increase will provide SaskPower with approximately $125 million of additional revenue in 2009. The Panel will submit its recommendations to the Minister by April 27, 2009. SaskPower's last rate increase was 4.3% and became effective on February 1, 2007.

INFRASTRUCTURE RENEWAL AND EXPANSION

As Saskatchewan's economy grows, there is an increased demand for power as people invest in the province and make it their home. In response, SaskPower is developing a fully integrated Supply and Transmission Plan.

SaskPower has already committed to installing up to 400 MW of simple cycle natural gas turbines as the supply option for the short-term. To ensure long-term support for the province's economic growth, SaskPower is currently reviewing other supply options. Building on the already diverse mix in the current generation fleet, future options under consideration include clean coal, polygeneration, cogeneration, natural gas, imports, purchased power, nuclear, and large and small hydro and renewables – like biomass and wind. Demand Side Management (DSM) will also continue to play a prominent role. Refer to the risk management section for further discussion.

KEY PERFORMANCE DRIVERS AND TARGETS

A STRATEGY FOR BUILDING A LEADING UTILITY

At the heart of the SaskPower Strategic Plan is our company's long-term vision: People, innovation and partnerships . . . powering Saskatchewan to a bright future.

Our five Strategic Priorities that will assist us in achieving SaskPower's vision over the next five to 10 years are:

1. Proud and productive employees.
2. Loyal and satisfied customers.
3. Dependable and secure infrastructure.
4. Strong environmental stewardship and performance.
5. Prudent financial management and growth.

We measure our ongoing performance against our ability to meet targets specific to each of our Strategic Priorities. The SaskPower Corporate Balanced Scorecard is directly aligned with our new Strategic Priorities and their associated activities.

CORPORATE BALANCED SCORECARD

1. **Proud and productive employees** — A successful future for our company is directly linked to the make-up of our current and future workforce. We strive to ensure our team of employees is dedicated, passionate, innovative and representative of the communities that we serve.

Measures	2006 actual	2007 actual	2008 actual	2008 target	2009 target	2010 target	2011 target
Employee engagement score (%)	•	39	•	•	50	50	55
Net increase in diversity employees (#)	•	63	51	60	80	85	90
Productivity indicator (GWh/FTE)	•	•	•	•	71	75	79
Safety Index	•	•	•	•	3.0	3.0	2.0

• Denotes that actuals or targets were not available or reported for that time period.

Employee engagement score – This measure focuses on ensuring SaskPower has engaged employees and creates an environment conducive to the continuous improvement of productivity. The intent is to measure engagement levels on a regular basis and to show steady improvement. SaskPower's 2007 score was 39%, which is well below the targeted level. SaskPower has taken a number of steps to improve on this measure, including the implementation of a new performance management system and the delivery of a standardized training program for all supervisors. There was no engagement score for 2008.

Net increase in diversity employees – SaskPower has established an objective of having a workforce that is representative of Saskatchewan's population. A diverse employee base is a key part of our company's strategy to attract and retain a productive workforce. Net increase in diversity employees is a measure of the number of employees hired during the year from one of the four designated target groups (Aboriginal people, visible minorities, persons with disabilities and women in under-represented positions). The actual results were below target for the year and declined from the prior year. However, SaskPower expects an improvement in 2009.

Productivity indicator – This is a new measure that deals with the productivity level of employees. Continuous improvement in productivity is essential to ensure SaskPower can continue to provide electricity to Saskatchewan residents at reasonable rates. There are several measures SaskPower could use to evaluate its productivity. However, our company has decided to measure productivity as total electricity sales in gigawatt hours (GWh) divided by the number of permanent full-time employees (FTE).

Safety Index – Safety is a critical element in all SaskPower's operations. In recent years, our company's safety record has improved, however there are opportunities for further advances. Continued improvement in safety processes and practices are essential for the well-being of our workforce and the wider community. The Safety Index is a new measure that evaluates how well SaskPower is performing in relation to its safety targets.

2. **Loyal and satisfied customers** — SaskPower's mission is built around serving the people and businesses of Saskatchewan. As our customers' needs evolve, so must our company. Beyond ensuring dependability, SaskPower will work in partnership with customers to find innovative and timely solutions to address ever-changing service requirements.

Measures	2006 actual	2007 actual	2008 actual	2008 target	2009 target	2010 target	2011 target
Customer Satisfaction Index (%) *	46	41	7.8	7.0	7.8	7.9	8.0
Reliability System Average Interruption Duration Index (SAIDI)	4.1	4.5	3.8	3.5	3.4	3.3	3.2
Reliability System Average Interruption Frequency Index (SAIFI)	1.7	2.0	1.8	1.7	1.6	1.5	1.4

** Starting in 2008, the Customer Satisfaction Index was measured using a 10-point scale.*

Customer Satisfaction Index – The Customer Satisfaction Index is derived from our annual customer satisfaction survey. Our company is targeting to increase the mean or average satisfaction rating for all customer classes. In 2008, the target was met in all customer classes. Programs such as Service Delivery Renewal (SDR) and DSM are expected to improve average satisfaction levels.

Reliability System Average Interruption Duration Index (SAIDI) – This is a measure of the average service interruption length in hours from a customer's point of view. This is used to track SaskPower's performance in responding to outages. The target reflects a normal year for SaskPower. The SAIDI measured a greater length of interruptions than the 2008 target, due largely to the accumulation of a higher number of incidents. However, the results are an improvement over the prior year. To achieve its target, our company is continuing to focus on a number of initiatives, including the Wood Pole Replacement Program and Vegetation Management Program. These programs are designed to reduce outages that are considered controllable.

Reliability System Average Interruption Frequency Index (SAIFI) – This is a measure of the average service interruption frequency from a customer's point of view. This is used to track the overall performance of SaskPower's distribution system. The target reflects a normal year for SaskPower. The SAIFI measured a greater number of interruptions than the 2008 target due to adverse weather and equipment failures. However, the results are an improvement over the prior year. As noted above, SaskPower continues to focus on a number of initiatives in an effort to meet its target level of service.

3. **Dependable and secure infrastructure** — SaskPower has a strong track record of providing reliable service to customers. For our company, dependability begins with a secure supply of electricity, continues by way of a robust grid system and ends with excellence in product delivery.

Measures	2006 actual	2007 actual	2008 actual	2008 target	2009 target	2010 target	2011 target
Net new capacity additions (MW)	•	•	•	•	169	141	100
Renewing Infrastructure Index (%)	•	•	•	•	87.6	88.0	88.3

• Denotes that actuals or targets were not available or reported for that time period.

Net new capacity additions – This is a new measure of the increase in the net amount of generation capacity. SaskPower has an ongoing need to replace existing generating infrastructure and increase its capacity — through the building of new plants or through power purchase agreements — to accommodate new growth. The target for 2009 has been set at 169 MW. It relates to the installation of simple cycle natural gas turbines at Queen Elizabeth Power Station (105 MW) and Ermine (94 MW), offset by the retirement of the Success Power Station (30 MW).

Renewing Infrastructure Index – This is a new measure of the equipment availability of our generation and transmission assets. It demonstrates the effectiveness of SaskPower's overall asset maintenance strategy.

4. **Strong environmental stewardship and performance** — SaskPower will cultivate effective environmental stewardship through the prudent use of natural resources and the safeguarding of our air, land and water. We will strengthen our company's commitment to sustainability by developing and introducing cleaner sources of electricity while lowering emissions and empowering customers to manage their energy use.

Measures	2006 actual	2007 actual	2008 actual	2008 target	2009 target	2010 target	2011 target
CO_2e emission offsets (kilotonnes)	•	•	•	•	0	3,125	3,242
DSM - accumulated savings (MW)	•	•	•	•	24	38	46
Eneraction - cost of acquired savings ($/kWh)	•	•	•	•	0.02	0.02	0.02
Customer satisfaction with SaskPower's environmental performance *	•	•	•	•	7.5	7.8	8.0

** The customer satisfaction with SaskPower's environmental performance is measured using a 10-point scale.*

• Denotes that actuals or targets were not available or reported for that time period.

CO_2e emission offsets – This is a new measure of the amount of carbon dioxide (CO_2) emission offsets acquired to meet obligations within SaskPower's current generation supply plan.

DSM - accumulated savings – This is a new measure of the progress being made in delivering new DSM programs. It records demand reduction in megawatts at customer sites. The accumulated demand reduction will be achieved through energy efficiency, demand response, customer self generation, and system improvement programs that are designed to achieve energy and demand savings. Program savings will be calculated using an appropriate end-use load factor and the amount of energy savings estimated at the customer site.

Eneraction - cost of acquired savings – This is a new measure of SaskPower's umbrella DSM program that calculates the cost of average annual energy savings.

Customer satisfaction with SaskPower's environmental performance – This is a new measure evaluating customer satisfaction. As part of the customer satisfaction survey conducted each year, SaskPower will measure customers' response to the following question: "How satisfied are you with SaskPower operating in an environmentally responsible manner?"

5. **Prudent financial management and growth** — We believe a consistently strong financial performance is essential to sustain the health of our company and meet obligations to our shareholder. A healthy balance sheet will give SaskPower the flexibility to finance ongoing operations and capital requirements while we strive to deliver rates to all customers that accurately reflect costs and are competitive with other jurisdictions.

Measures	2006 actual	2007 actual	2008 actual	2008 target	2009 target	2010 target	2011 target
Return on equity (%)	6.4	9.3	4.2	8.5	8.5	8.5	8.5
Per cent debt ratio (%)	61.0	59.7	60.7	60.8	63.4	65.3	67.4
NorthPoint growth (%)	44	(27)	42	•	8	8	8
Rates – thermal utilities (%)	•	•	•	•	≤110	≤110	≤110

• Denotes that actuals or targets were not available or reported for that time period.

Return on equity – This is a measure of net income for the year expressed as a percentage of total equity. The target reflects an appropriate rate of return relative to other Canadian electrical utilities. The return on equity was 4.2% in 2008, which was below the target for the year. The net income results are explained in detail in the financial results section of the MD&A.

Per cent debt ratio – This is a measure of debt expressed as a percentage of the total corporate financing structure. The target reflects a prudent level of debt for an electrical utility. The 2008 per cent debt ratio of 60.7% was slightly better than target. The per cent debt ratio is discussed in detail in the financial results section of the MD&A.

NorthPoint growth – This is a new measure of NorthPoint's net income growth. NorthPoint's growth strategy includes: expanded energy management services for SaskPower; expanded electricity trading in new markets; and natural gas sales and storage optimization.

Rates - thermal utilities – The objective of this indicator is to ensure that SaskPower's system average rates are less than or equal to 110% of the system average rates for customers served by utilities dependent on thermal generation.

RESULTS FROM OPERATIONS

(in millions)	2008	2007	Change
Revenue			
Saskatchewan electricity sales	**$ 1,385**	$ 1,356	$ 29
Exports	**33**	57	(24)
Net sales from electricity trading	**17**	11	6
Other revenue	**54**	45	9
Total revenue	**1,489**	1,469	20
Operating costs			
Fuel and purchased power	**554**	463	91
Realized natural gas risk management activities	**(9)**	18	(27)
Operating, maintenance and administration	**430**	416	14
Depreciation, finance charges and taxes	**422**	421	1
Total operating costs[1]	**1,397**	1,318	79
Operating income[1]	**$ 92**	$ 151	$ (59)
Unrealized natural gas risk management activities	**(28)**	(13)	(15)
Net income	**$ 64**	$ 138	$ (74)
Operating return on equity[2]	**5.9%**	10.1%	(4.2)%
Return on equity[3]	**4.2%**	9.3%	(5.1)%

1. Operating costs and operating income are non-GAAP measures, whose nearest GAAP measures are total expense and net income respectively. Operating costs and operating income provide management and shareholders with measurements of operating performance which are readily comparable from period to period. Refer to the non-GAAP measures section on page 55 for further discussion of these items.

2. Operating return on equity = (operating income)/(average equity), where average equity = [(equity advances + retained earnings – unrealized natural gas risk management activities at year-end) + (equity advances + retained earnings – unrealized natural gas risk management activities at previous year-end)/2]

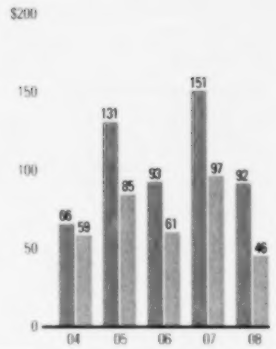
3. Return on equity = (net income)/(average equity), where average equity = [(equity advances + retained earnings at year-end) + (equity advances + retained earnings at previous year-end)/2]

HIGHLIGHTS

SaskPower's consolidated operating income was $92 million in 2008, a decrease of $59 million from 2007. The decline in earnings was due to a $79 million increase in operating costs, offset by a $20 million improvement in revenue. The operating return on equity was 5.9%, compared to 10.1% in the previous year.

Total operating costs increased $79 million due to a $91 million increase in fuel and purchased power costs, resulting primarily from an unfavourable change in the fuel mix and higher average fuel costs. Realized natural gas risk management activities improved $27 million as SaskPower's natural gas hedging activities partially mitigated the impact of rising natural gas prices during 2008. Operating, maintenance and administration (OM&A) costs increased $14 million as a result of rising costs for salaries and benefits, additional pension expense and higher maintenance costs. There was also a combined $1 million increase in depreciation, finance charges and taxes over the prior year.

The $20 million improvement in revenue was attributable to a $29 million increase in Saskatchewan electricity sales; a $6 million increase in electricity trading earnings; and a $9 million increase in other revenue. Saskatchewan electricity sales increased due to higher sales volumes and electricity trading earnings increased due to improved margins. Other revenue rose primarily due to higher flyash sales.



OPERATING INCOME AND DIVIDENDS (in millions)

Over the last five years, SaskPower has declared $348 million in dividends payable to CIC.

The increase in these revenue sources was substantially offset by the $24 million decrease in export revenue as a result of lower sales volumes caused by increased domestic load and transmission constraints.

Net income was $64 million in 2008, compared to $138 million in 2007. The $64 million net income includes $28 million of unrealized losses on SaskPower's natural gas risk management activities.

In 2008, SaskPower declared $46 million in dividends payable to CIC, compared to $97 million in 2007.

REVENUE

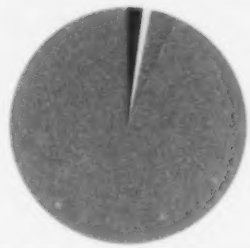
A. Saskatchewan electricity sales

(in millions)	2008	2007	Change
Saskatchewan electricity sales	**$ 1,385**	$ 1,356	$ 29

Saskatchewan electricity sales represent the sale of electricity to all customer classes within the province. These sales are subject to the effects of general economic conditions, number of customers, weather and electrical rates.

Saskatchewan electricity sales were $1,385 million in 2008, up $29 million from 2007. There was no system-wide rate increase during the year, and the rise in sales was primarily due to increased sales volumes.

In 2008, electricity sales volumes to Saskatchewan customers were 18,192 gigawatt hours (GWh), up 269 GWh or 1.5% from the previous year. Sales volumes were up in all customer classes with the exception of farm and reseller customers, where volumes were down slightly.



2008 REVENUE – $1,489 million

SASKATCHEWAN ELECTRICITY SALES 93% · NET SALES FROM ELECTRICITY TRADING 1% · EXPORTS 2% · OTHER 4%

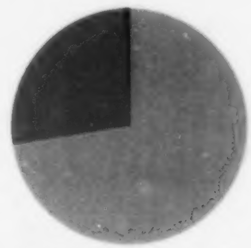
Saskatchewan electricity sales make up the bulk of SaskPower's revenue.

B. Exports

(in millions)	2008	2007	Change
Exports	**$ 33**	$ 57	$ (24)

Exports represent the sale of SaskPower's surplus generation to other regions in Canada and the United States. Export pricing is not subject to the rate review process and is at market rates. Export sales volumes are dependent on the availability of surplus SaskPower generation, market conditions in other jurisdictions and transmission availability.

Exports were $33 million in 2008, down $24 million compared to 2007. The decrease was primarily due to lower sales volumes as a result of increased domestic load and transmission restrictions that limited the availability to export. Export sales volumes decreased 442 GWh, compared to 2007. This decline in volumes was partially offset by an increase in the average export sales price, which was approximately $81/megawatt hour (MWh), up $14/MWh from 2007.



2008 EXPORTS BY MARKET – $33 million

ALBERTA 73%
OTHER <1%
MISO 27%

Exports are made primarily to the Alberta and MISO markets

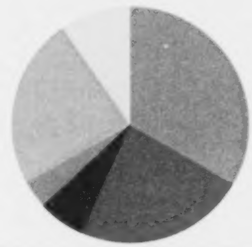
C. Net sales from electricity trading

(in millions)	2008	2007	Change
Electricity trading revenue	**$ 125**	$ 125	$ –
Electricity trading costs	**(108)**	(114)	6
Net sales from electricity trading	**$ 17**	$ 11	$ 6

Electricity trading activities, performed by SaskPower's subsidiary NorthPoint, include the purchase and resale of electricity and other electricity-related commodities and derivatives in regions outside Saskatchewan. The trading activities include both real time as well as short- to long-term physical and financial trades in the North American market. The trading activities are intended to deliver positive gross margins to SaskPower's bottom line while operating within an acceptable level of risk.

Electricity trading revenues were $125 million in 2008, unchanged from 2007. Despite additional sales to the Alberta market in 2008, overall trading volumes decreased 84 GWh, as a result of fewer trading opportunities in other markets. The decline in sales volumes was offset by an increase in the average sales price, which rose to $66/MWh in 2008 from $63/MWh in 2007.

While electricity trading revenues were relatively flat, the gross margin — or net sales after deducting purchased power costs — was $17 million or 14% in 2008, compared to $11 million or 9% in 2007. The relative improvement in the gross margin was due to improved spreads — the difference between the sale price and the purchase price — realized in the Alberta market in 2008.



SaskPower participates in a number of electricity trading markets across North America

D. Other revenue

(in millions)	2008	2007	Change
Other revenue	**$ 54**	$ 45	$ 9

Other revenue includes various non-electricity products and services. Other revenue rose $9 million to $54 million in 2008. The increase was primarily due to higher flyash sales; rising gas and electrical inspection revenue; and the new grant revenue received from the Federal Government as funding for carbon capture and sequestration. These increases were partially offset by a $1 million decline in the amount received from the Government of Canada as part of the Wind Power Production Incentive Program.

OPERATING COSTS

A. Fuel and purchased power

(in millions)	2008	2007	Change
Fuel and purchased power	**$ 554**	$ 463	$ 91

SaskPower's fuel and purchased power costs include the fuel charges associated with the electricity generated from SaskPower-owned facilities, energy purchased through power purchase agreements, as well as electricity imported from markets outside Saskatchewan. This electricity is used to serve our company's Saskatchewan customers, with surplus electricity being sold to markets outside Saskatchewan when favourable conditions exist.

SaskPower's fuel cost management strategy focuses on the economic dispatch of the generating units that bring the lowest incremental cost units on stream first. In general, this means maximizing hydro and coal generation, which have the lowest incremental cost per unit of generation. Hydro generation is dependent upon water levels and river flow at SaskPower's hydro facilities and coal generation is a product of the availability of our coal plants. Wind generation, the lowest incremental cost source of electricity, cannot be dispatched on a planned basis as it is dependent upon wind conditions.

2008 GROSS ELECTRICITY SUPPLIED – 20,480 GWh

- COAL 55%
- GAS 19%
- HYDRO 20%
- WIND 3%
- IMPORTS 3%
- OTHER <1%

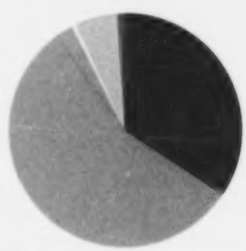
Coal and hydro generation provided nearly 75% of electrical requirements in 2008.

Total fuel and purchased power costs in 2008 were $554 million, compared to $463 million in 2007. The $91 million increase was largely due to the unfavourable change in the fuel mix and an increase in the average price of fuel.

The fuel mix is the relative proportion that each fuel source contributes to our total fuel supply. The more energy that is generated from lower incremental cost units such as hydro, coal and wind, the more favourable the impact on fuel and purchased power costs. In 2008, hydro generation volumes decreased by 363 GWh or 8%, as water available to produce electricity at hydroelectric plants had decreased from the prior year. In addition, coal generation was down 256 GWh or 2% in 2008, due to the extensive rebuild that took place at Poplar River Power Station Unit #1. Coal and hydro generation accounted for 75% of the total generation in 2008, compared to 78% in 2007. The lower coal and hydro availability was replaced with natural gas generation and imports, which are relatively more expensive fuel sources. The change in the fuel mix resulted in an estimated $33 million increase in fuel and purchased power costs.

Adding to the unfavourable change in the fuel mix was an increase in the average cost of fuel issued from SaskPower's inventory, largely as a result of higher natural gas prices. Average natural gas prices increased approximately $1 per gigajoule (GJ) in 2008 compared to 2007. In addition, coal prices were also up in 2008 as a result of an increase in the various consumer price indices that directly impact SaskPower's contracted coal price. The increase in the price of natural gas and coal caused an increase in fuel and purchased power costs of approximately $59 million.

These unfavourable changes were partially offset by a slight decrease in the volume of electricity supplied in 2008. Total generation and purchased power of 20,480 GWh decreased 91 GWh from the prior year. This decrease in demand resulted in an estimated $1 million improvement in fuel and purchased power costs in 2008.



2008 FUEL AND PURCHASED POWER – $554 million

- COAL 34%
- GAS 56%
- HYDRO 3%
- WIND <1%
- IMPORTS 6%
- OTHER 1%

Coal and hydro represent 37% of the total fuel and purchased power costs, while providing nearly 75% of electrical requirements.

B. Realized natural gas risk management activities

(in millions)	2008	2007	Change
Realized natural gas risk management activities	**$ (9)**	$ 18	$ (27)

Realized natural gas risk management activities represent the cash impact derived from SaskPower's natural gas hedging program. Currently, our company seeks to hedge up to 50% of SaskPower's exposure to natural gas. This strategy is intended to mitigate our company's exposure to market prices and stabilize the fuel and purchased power budget. SaskPower's long-term natural gas risk management strategy addresses the security of natural gas supply, obtaining suitable market access to liquid markets and managing natural gas price risk.

In 2008, approximately 15 million notional GJ of hedges related to SaskPower's natural gas consumption settled resulting in $9 million of realized gains for our company. These gains were the product of rising natural gas prices that pushed the market price of natural gas above SaskPower's hedged rate. As a result, SaskPower received payment on these hedges for the difference between the market price of natural gas and the hedged rate.

C. Operating, maintenance and administration (OM&A)

(in millions)	2008	2007	Change
OM&A	**$ 430**	$ 416	$ 14

SaskPower's OM&A expense was $430 million in 2008, compared to $416 million in 2007. This $14 million increase was largely the result of an increase in salaries and benefits; higher maintenance costs; and additional resources directed toward strategic programs.

Salaries and benefits increased $4 million, primarily as a result of general economic increases; job evaluation for members of the Communications, Energy and Paperworkers (CEP) union; and overall staff increases to address additional work load and new initiatives. There was also a $3 million increase in the corporate pension expense. This was as a result of the discontinuation of the amortization of a transitional asset that was set up in 2000 upon adoption of the revised pension accounting standards.

SaskPower experienced an overall increase of $7 million in other OM&A costs due to an increase in maintenance work performed on our company's transmission facilities. There was also an increase in the cost for work on the DSM and SDR initiatives.

2008 OM&A – $430 million

- SALARIES AND BENEFITS 53%
- MATERIALS AND SUPPLIES 8%
- EXTERNAL SERVICES 25%
- OTHER 14%

People costs – salaries and benefits and external services – represent 78% of OM&A expense

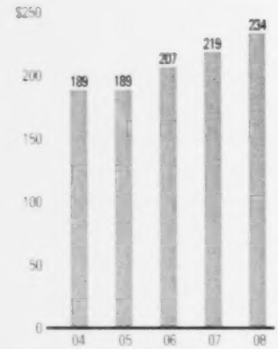
D. Depreciation

(in millions)	2008	2007	Change
Depreciation	**$ 234**	$ 219	$ 15

Depreciation represents a charge to income for the capital expenditures of SaskPower. The capital expenditures are amortized to income on a straight-line basis over the estimated useful life of the related asset. Depreciation rates are established based on periodic depreciation studies.

Depreciation expense amounted to $234 million in 2008, up $15 million from 2007. This was due to a $9 million rise in depreciation expense attributable to an increase in the asset base as a result of ongoing capital expenditures.

There was also a $6 million increase in asset retirement costs as the result of the write-down in the value of a number of assets that were no longer in service.



DEPRECIATION (in millions)

Depreciation costs have increased steadily as SaskPower continues to add to its asset base.

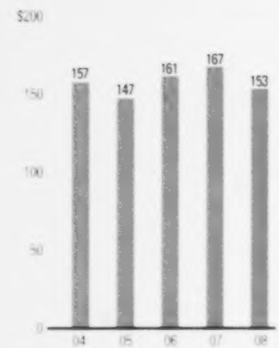
E. Finance charges

(in millions)	2008	2007	Change
Finance charges	**$ 153**	$ 167	$ (14)

Finance charges include the net amount of interest on recourse and non-recourse debt; interest capitalized; debt retirement fund earnings and changes in the market value of the funds; interest income; and foreign exchange gains/losses.

Finance charges of $153 million in 2008 were down $14 million from 2007. The decrease was primarily due to lower interest expenses as a result of the refinancing of a portion of SaskPower's long-term debt at more favourable interest rates.

In addition, there was an improvement in the debt retirement fund earnings as a result of higher returns partially offset by an unrealized loss in the market value of the funds.



FINANCE CHARGES (in millions)

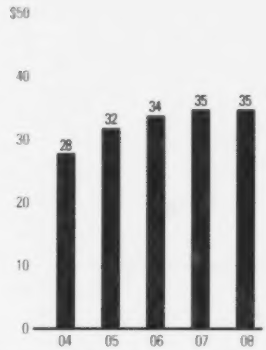
Finance charges fell in 2008 mainly due to the refinancing of high cost debt at lower interest rates.

F. **Taxes**

(in millions)	2008	2007	Change
Taxes	**$ 35**	$ 35	$ –

Taxes represent the payment of corporate capital tax to the Province of Saskatchewan and grants-in-lieu of taxes paid to 13 cities in Saskatchewan based on electricity sales earned in accordance with agreements between SaskPower and those cities.

Corporate capital tax and grants-in-lieu of taxes were $35 million in 2008, unchanged from the prior year.



TAXES (in millions)

Tax levels have increased modestly the past five years as a result of the increase in Saskatchewan electricity sales and a growing capital tax base.

UNREALIZED NATURAL GAS RISK MANAGEMENT ACTIVITIES

(in millions)	2008	2007	Change
Natural gas hedges market value losses (gains)	**$ 27**	$ (2)	$ 29
Natural gas hedges transitional market value net losses reclassified to net income	**1**	15	(14)
Unrealized natural gas risk management activities	**$ 28**	$ 13	$ 15

Unrealized natural gas risk management activities represent the change in the market value of SaskPower's outstanding natural gas hedges during the year. As of December 31, 2008, SaskPower had outstanding hedges of approximately 20 million notional GJ to fix the price of natural gas on a portion of our company's anticipated natural gas needs in 2009, 2010 and 2011. The net unrealized market value losses on these outstanding hedges were $27 million in 2008. The losses are the result of a decline in the forward price of natural gas as at the end of 2008. These unrealized losses are subject to volatility based on movements in the forward natural gas market.

The natural gas hedges transitional market value net losses reclassified to net income represent a transitional amount that resulted from the discontinuance of hedge accounting at the end of 2006. This transitional amount was amortized to net income over the life of the natural gas contracts in place on December 30, 2006.

DISCUSSION OF QUARTERLY RESULTS

The following chart outlines the quarterly operating results of SaskPower in 2008:

(in millions)	Q1	Q2	Q3	Q4	Total
Revenue					
Saskatchewan electricity sales	$ 365	$ 327	$ 336	$ 357	**$ 1,385**
Exports	4	12	12	5	**33**
Net sales from electricity trading	–	6	5	6	**17**
Other revenue	11	12	12	19	**54**
Total revenue	380	357	365	387	**1,489**
Operating costs					
Fuel and purchased power	138	131	136	149	**554**
Realized natural gas risk management activities	2	(7)	(7)	3	**(9)**
Operating, maintenance and administration	102	102	103	123	**430**
Depreciation, finance charges and taxes	102	104	113	103	**422**
Total operating costs	344	330	345	378	**1,397**
Operating income	$ 36	$ 27	$ 20	$ 9	**$ 92**
Unrealized natural gas risk management activities	35	32	(80)	(15)	**(28)**
Net income (loss)	$ 71	$ 59	$ (60)	$ (6)	**$ 64**

SaskPower's Saskatchewan electricity sales to residential and commercial customers are seasonal, with the first and fourth quarters being the strongest periods, reflecting colder weather and fewer daylight hours.

Operating income during the year was fairly consistent during the first three quarters of 2008. In the fourth quarter operating income was lower primarily due to an increase in OM&A expense as a result of the timing of maintenance activities.

Net income was impacted throughout the year by the unrealized natural gas risk management activities resulting from fluctuations in the forward prices of natural gas.

FINANCIAL CONDITION

The following chart outlines changes in the consolidated balance sheet from December 31, 2007, to December 31, 2008:

(in millions)	Increase / (decrease)	Explanation of change
Cash and cash equivalents	**$ (78)**	Refer to consolidated statement of cash flows.
Accounts receivable and unbilled revenue	**(5)**	Improved collection of current receivables and lower export sales in December.
Inventory	**2**	Increase in maintenance supplies and fuel inventory offset by an increase in the allowance for obsolescence.
Risk management assets	**(2)**	Decline in the forward price of natural gas.
Property, plant and equipment (net)	**167**	Capital additions offset by depreciation expense and asset retirements.
Debt retirement funds	**(25)**	Redemptions net of installments, earnings and market value adjustments.
Other assets	**(14)**	Lower defined benefit pension asset and prepaid expenses relating to long-term coal supply agreements.
Accounts payable and accrued liabilities	**2**	Increase in trade payables offset by lower year-end accruals.
Accrued interest	**(6)**	Refinancing of debt at lower interest rates.
Risk management liabilities	**25**	Decline in the forward price of natural gas.
Dividends payable	**(23)**	Decrease in net income; reduction in dividend rate.
Long-term debt (including current portion)	**13**	Proceeds from new borrowings net of debt repayments.
Other liabilities	**20**	Increase in estimated cash flows related to asset retirement obligations.
Equity	**14**	Net income offset by dividends declared to CIC.

LIQUIDITY AND CAPITAL RESOURCES

SaskPower raises most of its capital requirements through internal operating activities and through borrowings from the Saskatchewan Ministry of Finance. This type of borrowing allows our company to take advantage of the Province's strong credit rating. *The Power Corporation Act* provides SaskPower with the authority to have outstanding borrowings of up to $5 billion, of which $750 million may be by way of temporary loans. SaskPower also has available credit of $51 million at financial institutions that it can draw upon.

The other major sources of financing utilized by our company include non-recourse debt that was issued in 2001 to finance SaskPower's share of the Cory Cogeneration Station and $660 million in equity advances that were provided by CIC over 1989–1992 to form CIC's equity capitalization in SaskPower.

Cash position

(in millions)	2008	2007	Change
Cash and cash equivalents	**$ 6**	$ 84	$ (78)

Cash and cash equivalents were $6 million in 2008, down $78 million from the prior year. The decrease in the cash position was the result of $320 million provided by operating activities, offset by $377 million used in investing activities and a $21 million outflow of cash related to financing activities.

A. Operating activities

(in millions)	2008	2007	Change
Net income net of non-cash items	**$ 324**	$ 373	$ (49)
Net change in non-cash working capital	**(4)**	–	(4)
Cash provided by operating activities	**$ 320**	$ 373	$ (53)

Net income net of non-cash items was $324 million in 2008, down from $373 million in 2007. Despite a $74 million decrease in net income in 2008, operating cash flows were down only $49 million as a result of an increase in non-cash items such as unrealized losses on natural gas hedges. The $49 million decrease from the prior year was primarily the result of higher fuel and purchased power costs. SaskPower's non-cash working capital also decreased $4 million compared to 2007.

B. Investing activities

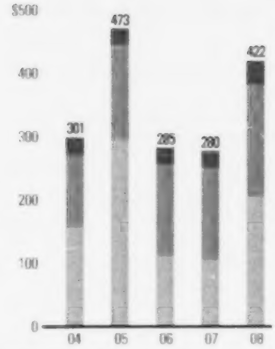
(in millions)	2008	2007	Change
Generation	**$ 207**	$ 107	$ 100
Transmission and distribution	**177**	146	31
Other	**38**	27	11
Total capital expenditures	**422**	280	142
Customer contributions and net proceeds on removal	**(39)**	(25)	(14)
Equity investment distributions	**(6)**	(9)	3
Reclassification of short-term investment	**–**	2	(2)
Cash used in investing activities	**$ 377**	$ 248	$ 129

In order to ensure a safe, reliable, and sustainable supply of electricity for its customers, SaskPower invested $422 million in various capital projects during 2008, compared to $280 million in 2007. The Corporation's capital was invested in the following areas during the year:

- $207 million on generation assets, including $96 million on new simple cycle natural gas turbines; $66 million to extend the life of the 291-MW Poplar River Power Station Unit #1; and $16 million on the Boundary Dam Power Station spillway upgrade.
- $177 million on transmission and distribution assets, including $103 million to connect customers to the SaskPower electric system and $6 million to replace aging wooden poles.
- $38 million on other capital assets including vehicles, equipment and computer information and technology assets.

Also included in investing activities were the following:

- Total customer contributions, net of proceeds on removal, were $39 million, up $14 million from 2007. Customer contributions are funds received from certain customers for the costs of service extensions. These contributions are netted against property, plant and equipment and are amortized over the estimated service life of the related asset. The net proceeds on removal represent the net cash received or paid upon normal disposal of an asset.
- In 2008, SaskPower received $6 million in cash distributions from its equity investment in the MRM Cogeneration Station, compared to $9 million in 2007.



CAPITAL EXPENDITURES (in millions)

GENERATION
TRANSMISSION AND DISTRIBUTION
OTHER

SaskPower has invested nearly $1.8 billion in its capital infrastructure over the last 5 years.

C. Financing activities

(in millions)	2008	2007	Change
Net proceeds from new borrowings	**$ 13**	$ 38	$ (25)
Net debt retirement fund redemptions (installments)	**35**	(23)	58
Dividends paid	**(69)**	(76)	7
Cash used in financing activities	**$ (21)**	$ (61)	$ 40

In 2008, $21 million of cash was used for financing activities, compared to $61 million in 2007. The $21 million outflow of cash was made up of the net proceeds from new borrowings plus debt retirement fund redemptions net of installments less dividend payments to CIC.

Long-term debt

(in millions)	2008	2007	Change
Gross long-term debt	**$ 2,578**	$ 2,565	$ 13
Less: current portion of long-term debt	**(7)**	(340)	333
Total long-term debt	**$ 2,571**	$ 2,225	$ 346
Per cent debt ratio[1]	**60.7%**	59.7%	1.0%

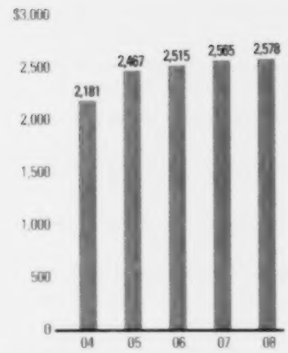
1. Per cent debt ratio = (debt)/(debt + equity), where debt = (long-term + current portion of long-term debt – debt retirement funds – cash and cash equivalents).

SaskPower's gross long-term debt position was $2,578 million at December 31, 2008, up $13 million from December 31, 2007. The rise in gross debt was the result of the following:

- On April 2, 2008, SaskPower, through the Saskatchewan Ministry of Finance (General Revenue Fund), borrowed $250 million of long-term debt at a premium of $3 million. The debt issue has a coupon rate of 4.75%, an effective interest rate of 4.67% and matures on June 1, 2040.

- On December 19, 2008, SaskPower borrowed an additional $100 million from the Saskatchewan Ministry of Finance. The debt was issued at par with a coupon rate of 4.71% and maturity date of June 1, 2040.
- SaskPower repaid $337 million of long-term debt with interest rates ranging from 7.70% to 10.31%.
- Through its subsidiary, SaskPower International, SaskPower repaid $3 million of non-recourse debt.

As a result of the increase in long-term debt and a reduced cash balance, SaskPower's per cent debt ratio has risen from 59.7% in 2007 to 60.7% in 2008.



GROSS LONG-TERM DEBT AT DECEMBER 31 (in millions)

Debt levels have been increasing to finance capital expenditures.

Debt retirement funds installments/redemptions

(in millions)	**2008**	2007	Change
Debt retirement fund installments	**$ (24)**	$ (23)	$ (1)
Debt retirement fund redemptions	**59**	–	59
	$ 35	$ (23)	$ 58

Debt retirement funds are monies set aside to retire outstanding long-term debt upon maturity. SaskPower makes regular contributions to the funds, which are held and invested by the Province of Saskatchewan.

SaskPower made $24 million in contributions to the debt retirement funds on outstanding debt issues as required by the terms of the advances from the Province of Saskatchewan. SaskPower also received $59 million from the redemption of debt retirement funds attached to certain debt issues that were retired in 2008.

SaskPower also earned $10 million in earnings net of market value adjustments (classified as non-cash operating activities) on the debt retirement funds during the year.

Dividends

SaskPower pays dividends to CIC based on the CIC Dividend Policy. Dividends were calculated based on 50% of net income excluding unrealized gains and losses on held-for-trading financial instruments. Dividends on each three month period's net earnings are paid quarterly with a one quarter lag to allow time for the financial statements to be audited before the annual dividend is finalized.

In 2008, SaskPower paid $69 million in dividends which includes dividends declared in the fourth quarter of 2007 and the first three quarters of 2008. For the 2008 calendar year, SaskPower declared dividends of $46 million. The final quarterly installment of $8 million is payable to CIC on March 31, 2009.

Contractual obligations

The Corporation had the following significant long-term contractual obligations as at December 31, 2008:

(in millions)	2009	2010	2011	2012	2013 and beyond	Total
Long-term debt (including principal and interest)	$ 178	$ 174	$ 174	$ 173	$ 5,309	$ 6,008
Debt retirement fund installments	25	25	25	25	465	565
Power purchase agreements	266	277	301	318	5,032	6,194

SaskPower's financing requirements for 2009 will include the repayment of $7 million of high coupon (7.87 – 9.26%) and non-recourse debt, $171 million in interest payments, $25 million of required debt retirement fund installments, and $266 million in minimum payments under existing power purchase agreements. SaskPower will evaluate the need for additional borrowings throughout the year.

OUTLOOK

SaskPower expects to earn $138 million in 2009, resulting in a return on equity of 8.5%. Earnings are expected to increase as a result of higher Saskatchewan and export sales, due to the anticipated 13% system-wide average rate increase, an increase in domestic demand and improved export opportunities in other jurisdictions.

These increases are expected to be partially offset by higher expenses in 2009. The largest increase will be in fuel and purchased power costs, which are expected to be 18% higher in 2009. The increase is due to an expectation of higher natural gas costs and an unfavourable change in the fuel mix as a result of lower water levels.

These earnings expectations are subject to a number of variables including: natural gas prices; coal and hydro availability; weather; economic conditions; number of customers; and market conditions in other jurisdictions.

SaskPower also expects to continue to make substantial investments in its infrastructure, totaling over $8 billion over the next 10 years. Capital expenditures in 2009 are forecast to be approximately $954 million. This includes costs for the installation of simple cycle natural gas turbines at Queen Elizabeth Power Station (105 MW); Ermine (94 MW) and a site near North Battleford (141 MW). It also includes costs to upgrade various transformers and transmission lines and connect new customers to SaskPower's grid.

SASKPOWER SUBSIDIARIES

SaskPower has three wholly-owned subsidiaries: SaskPower International Inc. (SaskPower International), NorthPoint Energy Solutions Inc. (NorthPoint) and Power Greenhouses Inc. (Shand Greenhouse).

Each subsidiary prepares and issues separate audited financial statements. The financial activities of SaskPower's subsidiaries are consolidated within the financial statements of SaskPower in accordance with Canadian generally accepted accounting principles (GAAP) as summarized below. Shand Greenhouse grows and distributes tree and shrub seedlings and operates on a break-even basis. The financial results of this subsidiary are not considered to be material and have been not been included in the following chart:

(in millions)	Assets		Revenue		Net income	
	2008	2007	**2008**	2007	**2008**	2007
SaskPower International Inc.	**$ 394**	$ 406	**$ 55**	$ 51	**$ 21**	$ 19
NorthPoint Energy Solutions Inc.	**45**	37	**133**	133	**18**	13

SASKPOWER INTERNATIONAL

SaskPower International was established in 1994 as a wholly-owned subsidiary of SaskPower. SaskPower International currently has an ownership interest in three power generating stations as follows:

- The 228-MW Cory Cogeneration Station is located at the PCS Potash Cory Division. It is jointly owned on a 50/50 basis with ATCO Power. The electricity generated by the facility is sold to SaskPower under the terms of a 25-year power purchase agreement. The steam is delivered to the PCS Potash Cory Division for use in its industrial processes.
- The 172-MW MRM Cogeneration Station is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. It is owned 30% by SaskPower International and 70% by ATCO. The Muskeg River Mine uses all the steam output from the plant and currently uses approximately half of the electricity output. The remaining electricity is sold into the Alberta power grid.
- The 150-MW Centennial Wind Power Facility began commercial operations on March 15, 2006. It is located approximately 25 kilometers southeast of Swift Current. The electricity generated by this SaskPower International-owned facility is sold to SaskPower under the terms of an interim power purchase agreement.

SaskPower International's other business line is the marketing and sale of flyash, which is a byproduct of coal burned at SaskPower's Boundary Dam Power Station and Shand Power Station. The flyash is used in applications such as ready-mixed concrete, concrete block, pipe, paving stones and environmental remediation activities.

SaskPower, announced on December 18, 2008, that it had decided to wind down the operations of SaskPower International as of December 31, 2008. Effective January 1, 2009, SaskPower International's personnel, flyash sales operations and the Centennial Wind Power Facility operations were transferred to SaskPower. SaskPower International is continuing as a legal entity to serve responsibilities under existing joint venture partnerships and investments.

NORTHPOINT

NorthPoint is a wholly-owned subsidiary of SaskPower. It was formed in late 2001 to meet requirements associated with SaskPower's OATT that mandates the separation of transmission and wholesale marketing functions.

NorthPoint has a service agreement with SaskPower to perform generation and load management services, provide electricity export and import functions related to the generation assets of SaskPower, and to manage SaskPower's natural gas supplies for its natural gas-fired power plants. The generation and load management services include coordinating the economic dispatch of SaskPower's generation capacity and the dispatch of long-term power purchase agreements on a continuous basis. The electricity export and import functions include the selling of surplus generation to other jurisdictions and purchasing electricity for domestic load when shortfall in supply occurs or lower cost supply is available. Gas management services for SaskPower include coordinating and balancing SaskPower's natural gas requirements, managing injections to and withdrawals from SaskPower's natural gas storage assets, and managing natural gas price risk with physical and financial hedging activity.

NorthPoint also acts as a principal in wholesale electricity trading transactions that do not relate to the generation assets of SaskPower. In Canada, it operates in Alberta, Manitoba and Ontario. In the United States, it actively participates in markets in the Northwest, Mid-continent, and East. NorthPoint operates mainly under two umbrella trading agreements: Mid-Continent Energy Marketers Association Tariff and Western Systems Power Pool Agreement.

OFF-BALANCE SHEET ARRANGEMENTS

The Canadian Institute of Chartered Accountants (CICA) recommends that corporations disclose all off-balance sheet arrangements if they have or are likely to have a material current or future effect on the financial condition of SaskPower. SaskPower has the following off-balance sheet arrangements that are considered to be significant.

A. Employees' future benefits

SaskPower provides pension plans for all eligible employees, including a defined benefit pension plan, defined contribution pension plan and other severance plans. The funded status (the difference between the plan assets and accrued benefit obligations) of SaskPower's employee future benefit plans is not recognized on the balance sheet as at December 31, 2008. Under current Canadian GAAP, only disclosure of the funded status in the notes to the financial statements is required. In addition, using a measurement date up to three months prior to the balance sheet date is permitted. The measurement date of the latest actuarial valuation used to determine the plan assets and obligations of the various plans was September 30, 2008.

The funded status of the defined benefit pension plan and the present value of the accrued benefits under the other benefit plans are disclosed in *Note 28* to the consolidated financial statements.

B. Energy performance contracts

Energy performance contracts are packages that provide energy savings to certain large commercial customers of SaskPower. The packages are comprehensive facility improvement programs that normally include the installation of new energy efficient equipment, which is intended to pay for itself through energy savings. SaskPower guarantees these energy savings. These guarantees are offset by third party guarantees to SaskPower that ensure the energy savings will be realized.

SaskPower has not recorded an asset or liability in respect of these contracts, as the promised energy savings were being realized on all energy performance contracts as of December 31, 2008. In the event that the energy savings were not being realized, SaskPower would be liable to the customer for the guaranteed savings. A payable to the customer and a receivable from the third party that provided an offsetting guarantee to SaskPower would be recorded on the balance sheet.

The value of the guarantees is disclosed in *Note 24(e)* to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

In October 2008, SaskPower purchased property from Saskatchewan Transportation Company. This purchase was accounted for as a related party transaction and was measured at carrying value, as the sale was considered to not be in the normal course of operations. As such, the excess of the consideration paid over the net book value of the property was charged to retained earnings.

SaskPower also has a number of routine transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. These transactions with related parties are settled at prevailing market prices under normal trade terms.

Related party transactions are disclosed in *Note 27* to the consolidated financial statements.

ANALYSIS OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

SaskPower's significant accounting policies are described in *Note 2* to the consolidated financial statements. Some of these policies involve accounting estimates that require management to make particularly subjective or complex judgements about matters that are inherently uncertain. Different conditions or assumptions regarding the estimates could result in materially different results being reported. Management has discussed the development and selection of these critical accounting policies with the Board of Directors and the external auditors.

The following section discusses the critical accounting estimates and assumptions that management has made and how they affect the amounts reported in the consolidated financial statements.

A. Change in accounting policies

Financial instruments – disclosure and presentation
Effective January 1, 2008, SaskPower adopted the new CICA Section 3862, "Financial Instruments – Disclosures," and Section 3863, "Financial Instruments – Presentation." These sections replace Section 3861, "Financial Instruments – Disclosure and Presentation." The impact of implementing these new standards has been disclosed in *Notes 21* and *22* in the consolidated financial statements.

Capital disclosures
Effective January 1, 2008, SaskPower adopted Section 1535, "Capital Disclosures." The new required disclosure regarding what SaskPower defines as capital and its objectives, policy and process for managing capital is provided in *Note 23* in the consolidated financial statements.

Inventories
Effective January 1, 2008, SaskPower adopted Section 3031, "Inventories." The new accounting standard provides guidance on the method of determining the cost of SaskPower's inventory; specifies that inventories are to be valued at the lower of cost and net realizable value; and requires the reversal of previously recorded write-downs to realizable value when there is clear evidence that net realizable value has increased. The adoption of this new standard had no material impact on the consolidated financial statements.

B. Depreciation

Property, plant and equipment represents 86% of total assets recognized on SaskPower's balance sheet. Included in property, plant and equipment are the generation, transmission, distribution and other assets of SaskPower. Due to the size of SaskPower's property, plant and equipment, changes in estimated depreciation rates can have a significant impact on income.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The estimated useful lives of the assets are based on formal depreciation studies that are performed every five years, with annual reviews for reasonableness. The estimated useful lives are determined based upon manufacturer's guidance on asset life, SaskPower's past experience with similar assets, industry averages and expectations about future events that could impact the life of the asset.

A one-year increase in the average estimated service life of each of the major asset categories of property, plant and equipment would result in a $13 million decrease to depreciation expense in the current year. See *Note 2(h)* and *Note 9* to the consolidated financial statements for additional discussion of SaskPower's depreciation expense.

C. Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the decommissioning of a long-lived asset. SaskPower recognizes asset retirement obligations in the period they are incurred if a reasonable estimate of fair value (net present value) can be determined. SaskPower recognizes asset retirement obligations to decommission coal, natural gas, cogeneration and wind generation facilities in the period in which the facility is commissioned. SaskPower has not recognized an obligation for the transmission, distribution and hydro generation assets as an estimate of their fair value cannot be determined. SaskPower expects to maintain and operate these assets indefinitely.

The fair value of the estimated asset retirement costs is recorded as a liability in other liabilities, with an offsetting asset capitalized and included as part of property, plant and equipment. The asset retirement obligations are increased annually for the passage of time by calculating accretion (interest) on the liability. The accretion expense is calculated using an interest rate that equates to a risk-free interest rate adjusted for the credit standing of the Corporation and is included with depreciation expense. The offsetting capitalized asset retirement costs are depreciated over the estimated useful life of the related asset.

The calculations of fair value are based on detailed studies that take into account various assumptions regarding the anticipated future cash flows, including the method and timing of decommissioning and estimates of future inflation.

A 0.5% increase in the credit-adjusted risk-free rate would result in a $5 million decrease to the asset retirement obligation, a $2 million decrease to the asset retirement asset and no material impact on depreciation expense in the current year.

Effective January 1, 2008, based on the completion of a detailed asset retirement obligation study, the fair value of the estimated cost to decommission SaskPower's coal, natural gas and wind generation facilities has been changed. The impact of this change in estimate increased property, plant and equipment and other liabilities by $16 million and had no material impact on depreciation expense in 2008. See *Note 2(j)* and *Note 18* to the consolidated financial statements for additional discussion of SaskPower's asset retirement obligations.

D. Employees' future benefits

As explained in *Note 2m* and *Note 28* in the consolidated financial statements, SaskPower provides post retirement benefits to employees, including a defined benefit pension plan. The defined benefit pension plan (the Plan), substantially closed to new members since 1977, provides benefits based on the average of the highest five years' annual pensionable earnings and years of service. Pensions are increased annually at a rate equal to 70% of the increase in the Saskatchewan consumer price index (CPI).

The cost of pension benefits under the Plan are actuarially determined using the projected benefit method prorated on service. It reflects management's best estimates of future investment performance, wage and salary escalation, age at retirement and future pension indexing up to the rate of inflation. Market rates are used to measure the accrued benefit obligation and fair value to measure the pension plan assets. The actual results over the short term may differ greatly from the long-term assumptions. However, the use of long-term financial assumptions to calculate pension expense is considered appropriate due to the long-term financial commitment that a pension plan represents.

An independent actuary calculates defined benefit pension plan costs based on the long-term assumptions described above. In 2008, the actuary calculated pension expense of $11 million compared to $8 million in 2007. This is a non-cash item that is included in operating, maintenance and administration expense on the income statement.

Changes in the long-term assumptions, including the anticipated return on plan assets and the discount rates used in determining the benefit obligation and current period service costs, can have a significant impact on the pension costs of SaskPower.

The expected rate of return on plan assets is based upon economic forecasts for the types of investments held by the Plan. The long-term rate of return on plan assets remained at 6.75%, consistent with the prior year. The discount rate is based on the spot yield for high-grade, long-term Canadian corporate bonds. The discount rate was increased from 5.75% to 6.25% to reflect the change in bond markets over that period.

A 0.5% increase in both the expected long-term rate of return on plan assets and the discount rate would result in a $3 million decrease in pension expense and a $3 million increase in the defined benefit pension asset recorded in the consolidated financial statements.

E. Unbilled revenue

Electric revenues are billed on a systematic basis over a monthly or quarterly period for all SaskPower customer classes. At the end of each month, SaskPower makes an estimate of the electricity delivered to its customers since their last billing date. The estimated unbilled revenue is based on several factors including estimated consumption by customer class, applicable customer rates and the number of days between the last billing date and the end of the period. As at December 31, 2008, total Saskatchewan electricity sales of $1,385 million included $59 million of estimated unbilled revenues.

FUTURE ACCOUNTING POLICY CHANGES

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting purposes in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The CICA is currently deliberating the definition of publicly accountable enterprises as it applies to government entities including SaskPower and its subsidiaries. At this time the final outcome of these deliberations is not determinable and therefore the need for SaskPower and its subsidiaries to adopt IFRS has not been firmly established. However, given the considerable effort required to prepare for the adoption of IFRS within the communicated timelines, the Corporation is proceeding under the assumption that adoption of IFRS will be required.

SaskPower has commenced its IFRS conversion project and developed a high level IFRS implementation plan. An external advisor has been engaged to assist with the development of this plan and to perform a detailed review of the major differences between current Canadian GAAP and IFRS. At this time, the impact on SaskPower's future financial position and result of operations is not reasonably determinable or estimated. However based on the analysis to date, the most significant areas of difference are related to the accounting for property, plant and equipment; power purchase agreements; asset retirement obligations; joint ventures; employee future benefits; and financial statement disclosure.

SaskPower has plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

NON-GAAP MEASURES

SaskPower evaluates its performance using a variety of measures. Operating costs, operating income and net debt are non-GAAP measures which are not defined under GAAP. These measures should not be considered in isolation or as an alternative to or more meaningful than, total expense, net income and long-term debt as determined in accordance with GAAP as an indicator of SaskPower's financial performance. These measures are not necessarily comparable to a similarly titled measure of another company.

RISK MANAGEMENT

SaskPower is subject to numerous risks and uncertainties, including the events or conditions identified below. The occurrence of one or more of these events or conditions could have an adverse effect on the achievement of SaskPower's business objectives or its financial condition.

SaskPower took steps in 2008 to strengthen its risk management capabilities. The Chief Financial Officer has been assigned the responsibility of establishing a Corporate Risk Office. In 2008, work began on this initiative with the development of an Enterprise Risk Management (ERM) Program. Work on this initiative will continue in 2009.

A. Market risk

1. General economic conditions

Changes in general economic conditions can have an impact on SaskPower's operations. Changes in fuel prices; fuel availability; interest rates; foreign exchange rates; customers' expansion decisions and electricity consumption; worker migration and skills availability; import availability; and supply chain capabilities will each have an impact on SaskPower.

SaskPower has developed various policies and procedures that are designed to reduce exposure to changes in general economic conditions. These policies and procedures are reviewed and assessed on a regular basis to ensure they continue to be relevant and effective in prevailing economic, market, financial and operating conditions. SaskPower maintains surveillance of events in its business environment and endeavours to anticipate any impacts.

The global economy is currently suffering the most severe financial crisis since the Great Depression. The impact to SaskPower has not been significant to this point due in part to the above discussed policies and procedures. SaskPower continues to monitor provincial, national and world events and their potential impacts.

2. Fuel price variability and long-term fuel supply

Two of SaskPower's primary fuel sources are coal and natural gas. A disruption in SaskPower's energy supply arrangements or in the wholesale fuel energy markets could adversely affect the company's financial condition or its ability to meet demand.

SaskPower has contracts in place that ensure supplies of coal at negotiated quantities and prices. These contracts are set to expire between 2009 and 2024. SaskPower is currently negotiating an extension to the coal contract set to expire at the end of 2009.

With respect to natural gas, SaskPower enters into shorter-term natural gas supply agreements out as far as 36 months to reduce supply risk. In 2008, SaskPower established a new framework for managing its natural gas exposures, which includes an increased focus on long-term price and supply management.

The impact of changing natural gas prices on SaskPower is mitigated by our energy management policies, which include the use of physical storage as well as physical and financial price management. In accordance with SaskPower's current Board-approved natural gas risk management program, SaskPower has hedged a minimum of 40% of its forecasted natural gas exposure for 2009. By the end of the 2009, our company is seeking to hedge 50% of its natural gas exposure for 2010 and 25% for 2011. SaskPower is working toward options for the implementation of a long-term natural gas hedging strategy.

As a result of our company's energy management policies, for every $1.00/GJ change in natural gas market price, there is an approximate $0.50/GJ change in fuel cost to SaskPower. Our company has forecasted its natural gas volume exposure at 36 million GJ for 2009.

3. Foreign exchange

SaskPower has exposure to various currencies due to electricity trading activities and the acquisition of goods and services from foreign suppliers. Our company may use a variety of derivative financial instruments, such as foreign currency forward contracts, to manage this risk.

4. Interest rates

Changes in interest rates can impact SaskPower's cost of new borrowings required to refinance existing debt or to finance infrastructure renewal and growth. As 100% of our company's debt is at fixed rates at December 31, 2008, there is no interest rate risk related to existing debt instruments. SaskPower is currently examining its structure to determine if an increased amount of floating rate debt would provide opportunities for lower average borrowing costs.

Changes in interest rates may also impact the value of the performance of SaskPower's defined benefit pension plan. Our company mitigates this risk by investing in a balanced portfolio of fixed income and equity instruments.

B. Aging infrastructure and supply management risk

A large portion of SaskPower's critical assets are near or at the end of their expected service life. Aging assets are increasingly expensive to maintain and operate and may be less efficient than newer technologies. They may also contribute to system reliability risk.

SaskPower has a 10-year plan in place to invest $8 billion to reinforce or replace its aging infrastructure, as well as add new generation and transmission assets. Our company also employs risk and insurance management professionals and maintains appropriate insurance policies to mitigate the impact of losses arising from the operation or failure of its assets.

1. Generation

Saskatchewan is experiencing a period of economic growth. Load over the next decade is expected to increase approximately 40%. SaskPower is examining options to respond to this growth. This includes the addition of new generation capability, increased use of partnerships, and other innovative ways to access the electricity needed for the future. These activities are likely to be capital intensive.

Current supply planning indicates the requirement for significant new generation starting in 2009. In the short-term, SaskPower is installing a 105 MW simple cycle gas turbine (SCGT) facility at Queen Elizabeth Power Station and a 94 MW SCGT facility at the Ermine Switching Station near Kerrobert in 2009. SaskPower is installing a third 141 MW SCGT at a location near North Battleford by December 2010. Independent Power Producers are included in the short-term plan through a solicitation which has been issued for 100 - 200 MW of peaking facilities by 2011 and a solicitation for 200 - 400 MW of base load supplies by 2012.

Unplanned generation outages that are longer in duration, multiple unplanned generation outages or catastrophic outages could have large economic risks and may result in SaskPower's inability to serve Saskatchewan's domestic load. A preventative maintenance program is in place to help limit the number, magnitude and duration of these potential unplanned outages.

2. Transmission and distribution

SaskPower's transmission and distribution system will also require upgrades to existing capacity and expansion of the transmission network to address economic growth. In 2008, SaskPower experienced a 70% increase in customer connect activity as compared to four years ago. As a result, several parts of the transmission and distribution system have been identified for upgrade or replacement.

The ability to handle increased loads is requiring the construction of new 138 kilovolt (kV) and 230 kV transmission lines, as well as the phasing out of 72 kV lines for new developments. Benefits will include reduced line losses, increased amounts of carrying capability, reduced transformer inventories, as well as replacement of some of the oldest transmission assets. In addition, expansion of the network is required in areas such as the far north (north of La Ronge to Uranium City) where continued growth is requiring new transmission lines and routing.

Increased loads on the distribution system require upgrading of capacity for substation transformers and the construction of new overhead three-phase lines to serve the new loads into an area. All new rural and most new urban residential services are now served by underground distribution lines, which require extensive planning and engineering to ensure minimal interference with other underground facilities. Existing overhead and underground facilities are continually being upgraded as they meet and exceed their design life. They are replaced with new facilities capable of handling much more load.

For the longer term, SaskPower will be investigating emerging distribution automation technologies with a view to integrate the operation and control of the provincial distribution system in order to improve reliability and outage response times for customers. Our company is also investigating and planning for the eventual installation of advanced metering at customers' residences and business facilities. This will allow customers the ability to better monitor their own energy consumption and will also allow SaskPower the ability to aggregate data and information to enable better operation and control of the system, while facilitating future planning and development of the entire distribution system in the province.

C. Operations risk

1. Labour action

A substantial part of SaskPower's workforce is unionized. The collective bargaining agreements (CBAs) of the International Brotherhood of Electrical Workers (IBEW) Local 2067, and the Communications, Energy and Paperworkers (CEP) Local 649 are due for renegotiation at the end of 2009.

SaskPower proactively deals with any issues that arise under the CBAs through our labour relation staff and processes. Saskatchewan's essential services legislation requires both the employer and worker representatives to enter into good faith bargaining to develop an essential services plan at least 90 days before the expiration of the current CBAs.

2. Professional and technical skills and retirement eligibility

SaskPower's business is dependent on its ability to recruit, retain and motivate employees. Competition for skilled employees in some areas is high and the inability to retain and attract these employees could adversely affect the achievement of business objectives and future operating results. Many of our company's technical workers will be eligible for retirement by 2013.

SaskPower employs recruitment specialists who actively pursue qualified professionals to fill key positions. Our company enjoys a low employee turnover rate. SaskPower offers competitive compensation and benefits, and other advantages such as leadership training, professional development, succession planning and, a working environment that enables a reasonable work-life balance.

3. Employee and public safety

Working on or around high voltage equipment or apparatus has inherent risk. As does work in confined spaces, around large rotating machinery, within high temperature and high pressure environments and at heights or in other potentially dangerous circumstances. SaskPower has extensive policies, procedures and controls in place to minimize the risk of injury by an employee, contractor, or a member of the public. This includes the maintenance of a Safety Management System in compliance with the internationally recognized OHSAS 18001 Standard. SaskPower has established an educational resource and program to help inform the public of the hazards of power lines and delivers this information at public venues around the province.

4. Supply chain

SaskPower depends on certain vendors to provide key parts, supplies and services. An interruption in a critical supply chain could disrupt operations and have a material effect on our company's financial results.

SaskPower monitors supplier capabilities on an ongoing basis. We encourage key suppliers to improve their own business continuity and resiliency planning in order to maintain our company's supply chain integrity.

5. Reliability/interconnection

The SaskPower system is interconnected to the North American power grid. It is possible for generating or transmission related equipment or facilities in any part of this system — over which SaskPower may have no control — to cause system instability on the Saskatchewan grid.

SaskPower has to detect and respond to system instability in order to maintain reliability of service. Unchecked instability has the potential to propagate service disruptions. Severe instability may damage our company's generation and transmission assets.

SaskPower system operators continually monitor the performance of the provincial grid and make necessary adjustments to maintain system stability. SaskPower participates in the North American bulk power system as part of the Mid-West Reliability Organization (MRO), which recognizes the interconnectedness of the North American grid and establishes rules and operating standards to protect its integrity. Other members of the MRO are Manitoba Hydro and various electric power providers in eight American states. All have agreed to operate their facilities according to the standards set by North American Electric Reliability Corporation (NERC) and the MRO, designed to ensure system reliability.

6. Malicious/criminal acts, physical security and cyber security

SaskPower utilizes critical information systems on a stand alone and network basis in the conduct of its business. These systems are susceptible to failure and to damage or conversion from their intended use through malicious attack. Our company may be subject to malicious or criminal acts resulting in the theft of or damage to assets.

SaskPower maintains industry standard policies, processes and technical safeguards to ensure only authorized access and use of its information systems. Our company has policies and procedures in place to ensure identified key systems can be recovered or reinstated in the event of an adverse event and system failure. SaskPower maintains hiring, training, operating, security, maintenance and capital programs designed to provide for the safe and reliable operation of information systems.

Our company has various policies and procedures pertaining to the protection of corporate assets and employs a corporate security person who has responsibility for physical security, threat and risk assessment and investigations. In addition, SaskPower uses electronic surveillance and detection methods. Our company maintains reasonable levels of insurance to protect it against theft or vandalism related losses.

D. Construction risk

SaskPower has identified the need to invest $8 billion over the next 10 years to maintain, upgrade and expand our company's infrastructure. There is risk that these projects may not be completed at all, may be completed on materially different terms or timing than initially anticipated, or the intended benefits of the projects may not be realized.

Weather conditions, delays in obtaining or failure to obtain regulatory approvals, delays in obtaining key materials, labour difficulties, skills shortages or other events beyond SaskPower's control may influence the timing, costs and outcome of planned construction/expansion projects. Public acceptance of new infrastructure projects is an integral part of achieving regulatory approvals. SaskPower routinely undertakes consultations with potentially affected stakeholders in order to increase understanding and foster public acceptance for projects. The failure to complete these projects in a timely manner could adversely affect our company's ability to meet customers' growing energy needs.

In 2008, SaskPower commenced a review of current practices regarding procurement; project management; project risk management; capital project approval requirements; and other aspects of managing project risk. This initiative will be substantially completed in 2009 but will be subject to continuous improvement.

E. Credit risk

1. Customer credit

SaskPower incurs credit risk each time our company provides electricity to customers for which it will later receive payment. SaskPower has developed a number of payment options for customers in order to reduce late payments and defaults. Our company also uses industry standard accounts receivable aging and collection techniques up to and including the restriction or termination of service to manage accounts receivable balances.

2. Counterparty credit

Counterparty risk, otherwise known as default risk, is the risk that a counterparty will fail to meet its obligations. SaskPower maintains credit policies that include activity limits, the evaluation of a prospective counterparty's financial condition, collateral requirements where deemed necessary and the use of standardized agreements that facilitate the netting of cash flows associated with a single counterparty. In addition, we also monitor the financial condition of existing counterparties on an ongoing basis.

3. Customer portfolio

Sales to large customers (power accounts and the Cities of Swift Current and Saskatoon) account for approximately 32% of revenue from domestic sales. The loss of a large, key customer could adversely affect SaskPower's revenue stream.

SaskPower monitors its customer mix and periodically assesses customer satisfaction for each class of customer. Key Account Representatives are responsible for monitoring assigned customer satisfaction and intentions on an ongoing basis.

F. Regulatory risk

1. Rate regulation process

The rates that SaskPower may charge customers are subject to review by the Saskatchewan Rate Review Panel (the Panel) with final approval by cabinet. Based on current rates, the impact of a 1% differential between a requested rate increase and the approved rate is approximately $14 million/year.

SaskPower follows standard accepted regulatory practices in designing rates and operating the system and presents these practices to the regulators in the rate application.

2. NERC compliance requirements

The North American participants in the bulk power system, including SaskPower, are subject to the reliability standards developed by NERC. In Saskatchewan, SaskPower is the sole regulatory authority and is working to ensure compliance with NERC reference standards. Failure to comply with the standards could impact our company's ability to buy and sell electricity in other jurisdictions.

In a wall-to-wall NERC compliance assessment performed in 2008, our company performed very well. In 2009, SaskPower will be coordinating compliance activities across our Business Units through a single regulatory oversight responsibility to be established within the company.

3. Compliance with a complex regulatory framework

SaskPower is subject to extensive federal, provincial and local government regulations, all of which are subject to change. Failure to comply with rules and regulations pertaining to air quality, water quality, waste management, natural resources, and health and safety may give cause to a number of sanctions such as fines, penalties, administrative costs and even stop work orders. Compliance with new laws or the revision or reinterpretation of existing laws may require us to incur additional expenses.

Management believes that the necessary approvals have been obtained — or are in the process of being obtained — and are maintained for our existing operations and that our business is conducted in accordance with applicable laws. The Corporate Law department provides knowledgeable interpretations in this regard.

G. Weather/other natural events risk

1. Weather

SaskPower's generation, transmission, and distribution operations are marked by seasonal weather patterns affecting load. Demand for electricity peaks during hot summer months and peaks again during cold winter months.

Adverse weather can affect system performance and reliability. Extreme cold can reduce the thermal efficiency of generation units. Generation assets may be damaged by anomalous weather events such as tornadoes or flooding. Transmission and distribution systems are largely unprotected and vulnerable to severe weather impacts.

SaskPower develops supply management plans that incorporate experience from dealing with past seasonal peaks, together with long range weather forecasts, maintenance schedules and system performance to meet seasonal needs. At all times, the provincial electric system is controlled by operators who are carefully managing base-load generation, peaking generation and import supplies.

SaskPower has developed emergency response plans and has trained responders at all power stations. These plans are being improved and further integrated as part of an ongoing Business Continuity Management Program. Transmission and Distribution has developed severe weather and widespread damage response plans and procedures. These plans are also being enhanced and further integrated as part of SaskPower's ongoing Business Continuity Management Program.

2. Hydrologic cycle

SaskPower relies on natural water sources for cooling, steam generation, and as a source of energy for hydroelectric generation. If hydroelectric generation is impaired it has to be replaced with more costly natural gas generation or imports.

SaskPower monitors water resources in the province through the Saskatchewan Watershed Authority and optimizes hydro facilities when alternative energy sources (imports) are at peak levels.

3. Epidemic/pandemic disease

Since 2004, the international medical community has been warning of the possibility of epidemic or pandemic disease. An epidemic or pandemic of a new or novel virus is likely to result in increased employee absenteeism. Significant numbers of absences may occur during one or more waves of illness. A prolonged and severe event is likely to influence changes in behaviours of employees, suppliers and customers as they try to avoid contact transmission from other people.

SaskPower has developed and is implementing a corporate Pandemic Influenza Response Plan and will continue to monitor international health events.

H. Environmental risk

1. Emissions standards

The main shift in understanding environmental risk has been in the increased awareness of the potential causes and consequences of climate change, including the possible causative effect of greenhouse gas emissions. Recently proposed emission rules will likely require significant sulphur dioxide (SO_2) reductions at numerous coal-fired plants. The Canada Wide Standard for mercury will also require SaskPower to significantly reduce its mercury emissions by 2010.

In recent years, SaskPower has demonstrated strong environmental performance through its work on lowering emissions such as SO_2 and nitrogen oxides (NO_x). Reducing emissions of carbon dioxide (CO_2), mercury and particulate matter continues to be a matter of intense focus.

2. Hazardous substances

Polychlorinated biphenyls (PCBs), asbestos, hydrocarbon contamination and coal tar have been used or produced in the course of operations and are present on properties or in facilities and equipment currently or previously owned by our company. SaskPower has established provisions for the remediation of known and estimable environmental obligations.

Our company is dedicated to improving its environmental performance by demonstrating leadership, operational transparency and ongoing stakeholder engagement. One expression of SaskPower's environmental commitment is the maintenance of its Environmental Management System, which conforms to the ISO 14001 Standard. The requirements to maintain this certification are stringent and are internationally recognized.

Consolidated financial statements & notes

REPORT OF MANAGEMENT

The consolidated financial statements of Saskatchewan Power Corporation (SaskPower) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of financial statements necessarily involves the use of estimates based on management's best judgment, particularly when transactions affecting the current period cannot be finalized with certainty until future periods. In management's opinion, the consolidated financial statements have been properly prepared within the framework of selected accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, information available up to February 13, 2009. The financial information presented in the Management's Discussion & Analysis (MD&A) and elsewhere in this report is consistent with that in the consolidated financial statements.

Management maintains appropriate systems of internal control which provide reasonable assurance that the Corporation's assets are safeguarded and appropriately accounted for, that financial records are relevant, reliable and accurate and that transactions are executed in accordance with management's authorization. This system includes corporate-wide policies and procedures, as well as the appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these controls on an ongoing basis and reports its findings to management and the Audit and Finance Committee of the Board of Directors.

The Board of Directors, through the Audit and Finance Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit and Finance Committee consists entirely of outside Directors. At regular meetings the Committee reviews audit, internal control and financial reporting matters with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities. The MD&A, consolidated financial statements and the external auditors' report have been reviewed by the Audit and Finance Committee and have been approved by the Board of Directors. The internal and external auditors have full and open access to the Audit and Finance Committee, with and without the presence of management.

The consolidated financial statements have been examined by Deloitte & Touche LLP, Chartered Accountants, as appointed by the Lieutenant Governor in Council and approved by the Crown Investments Corporation of Saskatchewan. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and sets forth their opinion.

On behalf of management,

Pat Youzwa

Pat Youzwa
President and Chief Executive Officer
February 13, 2009

Sandeep Kalra

Sandeep Kalra
Vice-president and Chief Financial Officer

AUDITORS' REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Power Corporation as at December 31, 2008, and the consolidated statements of income and retained earnings, comprehensive income and accumulated other comprehensive (loss) income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Regina, Saskatchewan
February 13, 2009

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(in millions)

For the year ended December 31	2008	2007
Revenue		
Saskatchewan electricity sales	**$ 1,385**	$ 1,356
Exports	**33**	57
Net sales from electricity trading *(Note 4)*	**17**	11
Other revenue *(Note 5)*	**54**	45
Total revenue	**1,489**	1,469
Expense		
Fuel and purchased power *(Note 6)*	**554**	463
Natural gas risk management activities *(Note 7)*		
Realized	**(9)**	18
Unrealized	**28**	13
Operating, maintenance and administration *(Note 8)*	**430**	416
Depreciation *(Note 9)*	**234**	219
Finance charges *(Note 10)*	**153**	167
Taxes *(Note 11)*	**35**	35
Total expense	**1,425**	1,331
Net income	**64**	138
Retained earnings, beginning of year	**853**	808
Change in accounting policy	**-**	2
Related party transactions *(Note 27)*	**(1)**	2
Dividends	**(46)**	(97)
Retained earnings, end of year	**$ 870**	$ 853

See accompanying notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in millions)

As at December 31	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents *(Note 12)*	**$ 6**	$ 84
Accounts receivable and unbilled revenue	**180**	185
Inventory *(Note 13)*	**147**	145
Risk management assets *(Note 21)*	**2**	4
	335	418
Property, plant and equipment *(Note 14)*		
Property, plant and equipment	**6,930**	6,688
Less: accumulated depreciation	**3,215**	3,088
	3,715	3,600
Construction in progress	**186**	134
	3,901	3,734
Debt retirement funds *(Note 15)*	**212**	237
Other assets *(Note 16)*	**72**	86
Total assets	**$ 4,520**	$ 4,475
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 168**	$ 166
Accrued interest	**48**	54
Risk management liabilities *(Note 21)*	**39**	14
Current portion of long-term debt *(Note 17)*	**7**	340
Dividends payable	**8**	31
	270	605
Long-term debt *(Note 17)*	**2,571**	2,225
Other liabilities *(Note 18)*	**150**	130
Total liabilities	**2,991**	2,960
Equity		
Retained earnings	**870**	853
Accumulated other comprehensive (loss) income *(Note 19)*	**(1)**	2
	869	855
Equity advances *(Note 20)*	**660**	660
Total equity	**1,529**	1,515
Total liabilities and equity	**$ 4,520**	$ 4,475

Commitments and contingencies *(Note 24)*

See accompanying notes

On behalf of the Board:

Joel Teal
Chair

Mick MacBean
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions)

For the year ended December 31		2008		2007
Net income	**$**	**64**	$	138
Other comprehensive (loss) income:				
Net (gains) losses on natural gas hedges in prior periods reclassified to net income in the current period		**(1)**		14
Loss on interest rate swaps		**(2)**		–
Other comprehensive (loss) income		**(3)**		14
Total comprehensive income	**$**	**61**	$	152

CONSOLIDATED STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

(in millions)

For the year ended December 31		2008		2007
Accumulated other comprehensive income (loss), beginning of year	**$**	**2**	$	(12)
Other comprehensive (loss) income		**(3)**		14
Accumulated other comprehensive (loss) income, end of year	**$**	**(1)**	$	2

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

For the year ended December 31	2008	2007
Operating activities		
Net income	**$ 64**	$ 138
Add (deduct) items not involving cash:		
Depreciation *(Note 9)*	**234**	219
Natural gas hedges market value losses (gains) *(Notes 7 and 21)*	**27**	(2)
Natural gas hedges transitional market value net losses reclassified to net income *(Note 7)*	**1**	15
Debt retirement fund earnings *(Notes 10 and 15)*	**(13)**	(8)
Debt retirement fund market value losses (gains) *(Notes 10 and 15)*	**3**	(1)
Defined benefit pension plan expense *(Note 28[b])*	**11**	8
Equity investment income *(Note 16)*	**(7)**	(7)
Allowance for obsolescence	**3**	7
Other	**1**	4
	324	373
Net change in non-cash working capital *(Note 25)*	**(4)**	–
Cash provided by operating activities	**320**	373
Investing activities		
Property, plant and equipment additions	**(416)**	(275)
Interest capitalized *(Note 10)*	**(6)**	(5)
Customer contributions and net proceeds on removal	**39**	25
Equity investment distributions *(Note 16)*	**6**	9
Reclassification of short-term investment	**–**	(2)
Cash used in investing activities	**(377)**	(248)
(Decrease) increase in cash before financing activities	**(57)**	125
Financing activities		
Proceeds from long-term debt	**353**	104
Repayment of long-term debt	**(337)**	(63)
Repayment of non-recourse debt	**(3)**	(3)
Debt retirement fund installments *(Note 15)*	**(24)**	(23)
Debt retirement fund redemptions *(Note 15)*	**59**	–
Dividends paid	**(69)**	(76)
Cash used in financing activities	**(21)**	(61)
(Decrease) increase in cash	**(78)**	64
Cash and cash equivalents, beginning of year	**84**	20
Cash and cash equivalents, end of year	**$ 6**	$ 84

Supplemental information

Cash paid for interest	**$ 181**	$ 185
Cash paid for grants-in-lieu of taxes	**17**	17
Cash paid for capital tax	**18**	18

See accompanying notes

1. STATUS OF THE CORPORATION

Saskatchewan Power Corporation (SaskPower; the Corporation), a provincially-owned Crown corporation, generates, purchases, transmits, distributes and sells electricity and related products and services. Founded as the Saskatchewan Power Commission in 1929, SaskPower was set up in 1949 and operates primarily under the mandate and authority of *The Power Corporation Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskPower has been designated a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC. As a provincial Crown corporation, the Corporation is not subject to federal income tax, provincial income tax or federal large corporations tax.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The following accounting policies are considered significant:

(a) Use of estimates

The timely preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Significant areas requiring the use of management estimates are described in the following summary of significant accounting policies. Actual results could differ from those estimates, which may impact the actual results reported in future periods.

(b) Consolidation and investments

These consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, NorthPoint Energy Solutions Inc. (NorthPoint), Power Greenhouses Inc. (Shand Greenhouse), and SaskPower International Inc. (SaskPower International). All inter-company transactions have been eliminated on consolidation. Separate audited financial statements are prepared for each subsidiary.

SaskPower accounts for its joint venture interests using the proportionate consolidation method. The Corporation accounts for investments over which it exerts significant influence using the equity method. The investment is initially recorded at cost and the carrying value adjusted thereafter to include the Corporation's proportionate share of post acquisition earnings less cash distributions.

(c) Revenue recognition

Electricity pricing in Saskatchewan is subject to review by the Saskatchewan Rate Review Panel with final approval by cabinet. Saskatchewan electricity sales and exports are recognized upon delivery to the customer and include an estimate of electrical deliveries not yet billed at year-end.

Electricity trading revenues are reported on a net basis upon delivery of electricity to the customers and receipt of electricity purchased from external parties. Electricity trading contracts are recorded at their fair value *(Note 4)*.

Other revenue includes gas and electrical inspections, flyash sales and wind power production incentives received from the Government of Canada. These revenues are recorded upon delivery of the related good or service. Other revenue also includes investment income which is the Corporation's proportionate share of post acquisition earnings on its equity investment *(Note 5)*.

Customer contributions are deferred and recognized in income as a credit to depreciation expense over the estimated service life of the related asset.

(d) Foreign currency translation

Revenues and expenditures resulting from transactions in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated using the exchange rate in effect on the balance sheet date. Any resulting foreign currency translation gains and losses are included in the consolidated statement of income in the current period.

(e) Cash and cash equivalents

Cash and cash equivalents includes short-term investments that have a maturity date of 90 days or less from the date of acquisition. These investments are carried at fair value *(Note 12)*.

(f) Inventory

Maintenance materials, supplies and fuel inventory are recorded at the lower of average cost and net realizable value. In establishing the appropriate provision for inventory obsolescence, management estimates the likelihood that inventory on hand will become obsolete due to changes in technology. Materials are charged to inventory when purchased and then expensed or capitalized when installed *(Note 13)*.

(g) Property, plant and equipment

Property, plant and equipment is recorded at original cost and includes material, direct labour, overhead costs and interest during construction. The Corporation capitalizes interest based on the weighted average cost of long-term borrowings.

Costs are capitalized provided there is reasonable certainty they will provide benefits into the future. Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased; physical output, service capacity or quality is improved above original design standards; or operating costs are reduced by a substantial and quantifiable amount. Maintenance and repair costs are expensed as incurred.

Customer contributions are funds received from certain customers toward the costs of service extensions. Contributions are netted against property, plant and equipment and are amortized over the estimated service life of the related asset.

Assets under construction are recorded as construction in progress until they are operational and available for use, at which time they are transferred to property, plant and equipment *(Note 14)*.

(h) Depreciation

Depreciation is calculated on a straight-line basis over the estimated service life of the related asset. The estimated useful life of property, plant and equipment is based on manufacturer's guidance, past experience and future expectations regarding the potential for technical obsolescence. Estimated service lives of the assets are periodically reviewed and any changes are applied prospectively.

The average estimated service life of new assets for the major categories of property, plant and equipment are:

Asset	Average service life in years
Generation:	
Coal	30
Natural gas	24
Hydro	50
Cogeneration	30
Wind	20
Transmission	35 – 50
Distribution	33 – 40
Other	4 – 50

Depreciation expense also includes the gain or loss on both the complete and partial disposal of assets and accretion (interest) expense on asset retirement obligations *(Note 9)*.

(i) Asset impairment

The Corporation evaluates its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Factors, which could indicate an impairment exists, include significant changes in the Corporation's strategy or underperformance of assets relative to projected future operating results. An impairment is recognized when the carrying amount of an asset exceeds the undiscounted projected future net cash flows expected from its use and disposal. It is measured as the amount by which the carrying amount of the asset exceeds its fair value. As at December 31, 2008, the Corporation determined that there was no impairment of value to its long-lived assets and therefore no write-down was required.

(j) Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the decommissioning of a long-lived asset. The Corporation recognizes asset retirement obligations in the period they are incurred if a reasonable estimate of fair value (net present value) can be determined. The Corporation recognizes asset retirement obligations to decommission coal, natural gas, cogeneration and wind generation facilities in the period in which the facility is commissioned. The Corporation has not recognized an obligation for its transmission, distribution and hydro generation assets as an estimate of their fair value cannot be determined. The Corporation expects to maintain and operate these assets indefinitely.

The fair value of the estimated asset retirement costs is recorded in other liabilities, with an offsetting asset capitalized and included as part of property, plant and equipment. The asset retirement obligations are increased annually for the passage of time by calculating accretion (interest) expense. The accretion expense is calculated using an interest rate that equates to a risk-free interest rate adjusted for the credit standing of the Corporation and is included with depreciation expense. The offsetting capitalized asset retirement costs are depreciated over the estimated useful life of the related asset.

The calculations of fair value are based on detailed studies that take into account various assumptions regarding the anticipated future cash flows including the method and timing of decommissioning and estimates of future inflation. Asset retirement obligations are periodically reviewed and any changes are recognized as an increase or decrease in the carrying amount of the liability for the asset retirement obligation and the related asset retirement cost *(Notes 9 and 18)*.

Effective January 1, 2008, based on the completion of a detailed asset retirement obligation study, the fair value of the estimated cost to decommission the Corporation's coal, natural gas, and wind generation facilities has been changed. The impact of this change in estimate increased property, plant and equipment and other liabilities by $16 million and had no material impact on depreciation expense in 2008.

(k) Environmental remediation liabilities

Environmental remediation liabilities are accrued when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs of remedial activities can be reasonably estimated. These estimates include costs for investigations and remediation at identified sites. These liabilities are based on management's best estimate considering current environmental laws and regulations and the estimates have been recorded at undiscounted amounts. The Corporation reviews its estimates of future environmental expenditures on an ongoing basis *(Note 18)*.

(l) Financial instruments

SaskPower classifies its financial instruments into one of the following categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale; and other liabilities. All financial instruments are measured at fair value on initial recognition and recorded on the consolidated statement of financial position. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading instruments, in which case they are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

Held-for-trading financial assets and liabilities are subsequently measured at fair value, with changes in fair value recognized in the consolidated statement of income in the line item to which the financial instrument is related. Available-for-sale financial assets are subsequently measured at fair value, with changes in fair value recognized as other comprehensive income. Financial instruments classified as held-to-maturity; loans and receivables; and other liabilities are subsequently measured at amortized cost using the effective interest rate method.

Derivative financial instruments, including natural gas, export and electricity trading contracts, are utilized by the Corporation to manage the exposure to natural gas and electricity price risk. All derivative contracts are recognized as a financial asset or a financial liability on the trade date. The Corporation has chosen not to designate its derivative instruments as hedges. As such, all derivative financial instruments are classified as held-for-trading and recorded at fair value on the consolidated statement of financial position as risk management assets and liabilities with subsequent changes in fair value recognized in the consolidated statement of income.

Certain commodity contracts for the physical purchase of natural gas have been designated as own-use contracts. SaskPower entered into these contracts for the purpose of physical receipt of the natural gas in accordance with its own expected usage requirements for the generation of electricity. As such, these non-financial derivative contracts are not recorded at fair value on the consolidated statement of financial position; rather, the contracts are accounted for as a purchase at the time of delivery.

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is determined by reference to quoted bid or ask prices, as appropriate, in the active market for that instrument to which the Corporation has immediate access. When bid or ask prices are unavailable, the Corporation uses the closing price of the most recent transaction of that instrument. In the absence of an active market, the Corporation determines fair value based on internal and external valuation models, such as option-pricing models and discounted cash flow analysis, using observable market-based inputs. Fair values determined using valuation models require the use of assumptions including forward natural gas market prices, market volatility and discount factors.

The Corporation has elected to record embedded derivatives only for contracts or financial instruments entered into or modified after January 1, 2003. As at December 31, 2008, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives that are required to be separately valued.

(m) Employees' future benefits

The Corporation provides pension plans for all eligible employees, including a defined benefit pension plan and a defined contribution pension plan. The defined benefit pension plan (the Plan) is governed by *The Superannuation (Supplementary Provisions) Act* and *Regulations*, as well as *The Power Corporation Superannuation Act*. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act* and *Regulations* and certain sections of *The Superannuation (Supplementary Provisions) Act* and *Regulations*.

Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to operating, maintenance and administration expense.

The defined benefit pension plan, substantially closed to new members since 1977, provides benefits based on the average of the highest five years' annual pensionable earnings and years of service. Pensions are increased annually at a rate equal to 70% of the increase in the Saskatchewan consumer price index (CPI).

The cost of pension benefits under this Plan is actuarially determined using the projected benefit method prorated on service. It reflects management's best estimates of future investment performance, wage and salary escalation, age at retirement and future pension indexing up to the rate of inflation. Market rates are used to measure the accrued benefit obligation and fair value to measure the pension Plan assets. The transitional asset that resulted from the adoption of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3461 and past service costs from amendments to the Plan are being amortized over the average remaining service life of the employees in the Plan. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of Plan assets is amortized over the average remaining service life of the employees in the Plan.

The Corporation provides severance plans for all eligible employees, including defined contribution and defined benefit severance plans. Under the defined contribution severance plan, SaskPower's obligations are limited to contributions made for current service. The cost of severance benefits under the defined benefit severance plans is determined using the projected benefit method prorated on service and reflects management's best estimates of future wages, number of eligible employees and average age at retirement.

The estimated transitional obligation is being amortized over the average remaining service life of the employees in the defined benefit severance plans.

The Corporation provides a supplementary superannuation plan for certain management employees who elect to forego their entitlement to banked days off. SaskPower's current period expense is limited to yearly notional contributions to the plan based upon the employee's salary and an amount allocated for interest on the employee's plan balance.

The Corporation also provides lifetime superannuation allowances and bridge allowances to employees who chose to retire under various early retirement options. The cost of these benefits is actuarially determined by calculating the present value of all future benefit entitlements *(Note 28)*.

(n) Future accounting policy changes

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian generally accepted accounting principles (GAAP) for interim and annual reporting purposes in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year.

SaskPower has commenced its IFRS conversion project and developed a high level IFRS implementation plan. An external advisor has been engaged to assist with the development of this plan and to perform a detailed review of the major differences between current Canadian GAAP and IFRS. At this time, the impact on SaskPower's future financial position and results of operations is not reasonably determined or estimated. However based on the analysis to date, the most significant areas of difference are related to the accounting for property, plant and equipment; power purchase agreements; asset retirement obligations; joint ventures; employee future benefits; and financial statement disclosure.

SaskPower has plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

3. CHANGE IN ACCOUNTING POLICIES

Financial instruments – disclosure and presentation

Effective January 1, 2008, SaskPower adopted the new CICA Section 3862, "Financial Instruments – Disclosures," and Section 3863, "Financial Instruments – Presentation." These sections replace Section 3861, "Financial Instruments – Disclosure and Presentation." The impact of implementing these new standards has been disclosed in *Notes 21 and 22*.

Capital disclosures

Effective January 1, 2008, SaskPower adopted Section 1535, "Capital Disclosures." The new required disclosure regarding what the Corporation defines as capital and its objectives, policy and process for managing capital is provided in *Note 23*.

Inventories

Effective January 1, 2008, SaskPower adopted Section 3031, "Inventories." The new accounting standard provides guidance on the method of determining the cost of the Corporation's inventory; specifies that inventories are to be valued at the lower of cost and net realizable value; and requires the reversal of previously recorded write-downs to realizable value when there is clear evidence that net realizable value has increased. The adoption of this new standard had no material impact on these consolidated financial statements.

4. NET SALES FROM ELECTRICITY TRADING (in millions)

	2008	2007
Electricity trading revenue	$ 125	$ 125
Electricity trading costs	108	114
	$ 17	$ 11

5. OTHER REVENUE (in millions)

	2008	2007
Gas and electrical inspections	$ 10	$ 8
Flyash sales	10	6
Wind power production incentives	5	6
Equity investment income *(Note 16)*	7	7
Grant funding for Integrated Carbon Capture and Sequestration Demonstration Project	2	–
Miscellaneous revenue	20	18
	$ 54	$ 45

6. FUEL AND PURCHASED POWER (in millions)

	2008	2007
Gas	$ 309	$ 255
Coal	190	169
Imports	33	18
Hydro	14	15
Wind	3	3
Other	5	3
	$ 554	$ 463

Gas costs include the fuel charges associated with the electricity generated from SaskPower-owned gas-fired facilities and the cost of electricity obtained through power purchase agreements with the Cory Cogeneration Station and the Meridian Cogeneration Station. Imports represent electricity purchased from suppliers that produce power outside Saskatchewan. Wind includes the cost of electricity obtained through SaskPower's power purchase agreement with the SunBridge Wind Power Project. Other includes the cost of electricity obtained through power purchase agreements with NRGreen Kerrobert, Loreburn, Estlin and Alameda Heat Recovery Projects.

7. NATURAL GAS RISK MANAGEMENT ACTIVITIES (in millions)

	2008	2007
Realized natural gas risk management activities	$ (9)	$ 18
Natural gas hedges market value losses (gains)	$ 27	$ (2)
Natural gas hedges transitional market value net losses reclassified to net income	1	15
Unrealized natural gas risk management activities	$ 28	$ 13

8. OPERATING, MAINTENANCE AND ADMINISTRATION (in millions)

	2008	2007
Salaries and benefits	$ 227	$ 220
External services	109	106
Materials and supplies	34	36
Other	60	54
	$ 430	$ 416

9. DEPRECIATION (in millions)

	2008	2007
Depreciation expense	**$ 232**	$ 224
Accretion expense *(Note 18)*	**3**	2
Loss on asset disposals and retirements	**11**	4
Amortization of customer contributions	**(12)**	(11)
	$ 234	$ 219

10. FINANCE CHARGES (in millions)

	2008	2007
Interest on long-term debt	**$ 170**	$ 184
Interest capitalized	**(6)**	(5)
Debt retirement fund earnings *(Note 15)*	**(13)**	(8)
Debt retirement fund market value losses (gains) *(Note 15)*	**3**	(1)
Interest income	**(2)**	(4)
Other interest and charges	**1**	1
	$ 153	$ 167

11. TAXES (in millions)

	2008	2007
Grants-in-lieu of taxes to 13 cities	**$ 17**	$ 17
Saskatchewan corporate capital tax	**18**	18
	$ 35	$ 35

In addition to the above, SaskPower collected a municipal surcharge, between 5% and 10% of residential electricity sales, on behalf of 406 Saskatchewan cities, towns and villages from customers and remitted $42 (2007 – $42) to local governments pursuant to Section 36 of *The Power Corporation Act*.

12. CASH AND CASH EQUIVALENTS (in millions)

	2008	2007
Cash (overdraft)	**$ (2)**	$ (5)
Short-term investments	**8**	89
	$ 6	$ 84

Short-term investments earned interest at a weighted average rate of 3.49% (2007 – 4.50%) per annum.

13. INVENTORY (in millions)

	2008	2007
Maintenance materials and supplies	**$ 113**	$ 111
Allowance for obsolescence	**(11)**	(8)
Fuel	**45**	42
	$ 147	$ 145

During the year, $300 of fuel inventory and $114 of maintenance materials and supplies were consumed. There was a provision made to write-down inventory by $4 and no reversal of any prior period write-down occurred during 2008.

14. PROPERTY, PLANT AND EQUIPMENT (in millions)

	2008				2007			
	Cost	Accumulated depreciation	Construction in progress	Net book value	Cost	Accumulated depreciation	Construction in progress	Net book value
Generation	**$ 3,571**	**$ 1,751**	**$ 133**	**$ 1,953**	$ 3,398	$ 1,635	$ 80	$ 1,843
Cogeneration	**140**	**27**	**–**	**113**	139	22	–	117
Transmission	**695**	**314**	**16**	**397**	677	302	18	393
Distribution	**2,036**	**857**	**9**	**1,188**	1,940	804	7	1,143
Other	**488**	**266**	**28**	**250**	534	325	29	238
	$ 6,930	**$ 3,215**	**$ 186**	**$ 3,901**	$ 6,688	$ 3,088	$ 134	$ 3,734

Included in the above amounts are unamortized reconstruction charges and customer contributions of $300 (2007 – $273).

15. DEBT RETIREMENT FUNDS (in millions)

A reconciliation between the opening and closing debt retirement funds balance is provided below:

	2008	2007
Debt retirement funds, beginning of year	**$ 237**	$ 201
Market value adjustment upon adoption of financial instruments standards	**–**	4
Debt retirement fund installments	**24**	23
Debt retirement fund redemptions	**(59)**	–
Debt retirement fund earnings (Note 10)	**13**	8
Debt retirement fund market value (losses) gains (Note 10)	**(3)**	1
Debt retirement funds, end of year	**$ 212**	$ 237

Under conditions attached to certain advances from the Province of Saskatchewan, the Corporation is required to pay annually into debt retirement funds administered by Saskatchewan Ministry of Finance, amounts at least equal to 1% of certain debt outstanding. As at December 31, 2008, scheduled debt retirement fund installments for the next five years are as follows:

	2009	2010	2011	2012	2013
Debt retirement fund annual contribution	$ 25	$ 25	$ 25	$ 25	$ 25

16. OTHER ASSETS (in millions)

	2008	2007
MRM Cogeneration Station	**$ 29**	$ 30
Prepaid expense	**24**	26
Defined benefit pension asset (Note 28[a])	**17**	28
Investment	**2**	2
	$ 72	$ 86

MRM Cogeneration Station

The Corporation has a 30% ownership interest in the MRM Cogeneration Station. The 172-megawatt (MW) natural gas-fired cogeneration facility is located at the Athabasca Oil Sands Project's Muskeg River Mine, north of Fort McMurray, Alberta. The cogeneration station commenced commercial operations in January 2003. A reconciliation between the opening and closing equity investment balance is provided below:

	2008	2007
Equity investment, beginning of year	**$ 30**	$ 32
Equity investment income	**7**	7
Equity investment other comprehensive loss	**(2)**	–
Equity investment distributions	**(6)**	(9)
Equity investment, end of year	**$ 29**	$ 30

Prepaid expense

This includes prepaid amounts for insurance, licenses and in accordance with long-term coal supply agreements. The prepaid amount is amortized on a straight-line basis over the period of benefit.

Defined benefit pension asset

This represents the surplus in the defined benefit pension plan based on long-term assumptions. It does not represent cash or investments held by the Corporation outside of the plan.

Investment

This represents an investment in Aurora Trust Series A Asset-Backed Commercial Paper (Aurora). The investment is recorded at its estimated fair value at December 31, 2008 (Note 21).

17. LONG-TERM DEBT (in millions)

	2008	2007
Recourse debt – advances from the Province of Saskatchewan	$ 2,475	$ 2,462
Non-recourse debt	84	87
Unamortized debt premiums net of issue costs	19	16
Gross long-term debt	2,578	2,565
Less: current portion of long-term debt	(7)	(340)
Long-term debt	$ 2,571	$ 2,225

The recourse debt is comprised of advances from the Province of Saskatchewan (General Revenue Fund), substantially all of which have annual debt retirement fund requirements. The non-recourse debt is used to finance the Cory Cogeneration Station. Under the terms of this debt, lenders have recourse limited to the Station's assets.

Recourse debt – advances from the Province of Saskatchewan

Date of issue	Date of maturity	Effective interest rate (%)	Coupon rate (%)	Outstanding amount
September 1, 1989, to December 1, 1989	September 1, 2009, to December 1, 2009	–	9.15 to 9.26	$ 3
July 20, 1993	July 15, 2013	8.63	7.81	97
December 20, 1990	December 15, 2020	11.23	9.97	129
February 4, 1992	February 4, 2022	9.27	9.60	240
July 21, 1992	July 15, 2022	10.06	8.94	256
May 30, 1995	May 30, 2025	8.82	8.75	100
August 8, 2001	September 5, 2031	6.49	6.40	200
January 15, 2003	September 5, 2031	5.91	6.40	100
May 12, 2003	September 5, 2033	5.90	5.80	100
January 14, 2004	September 5, 2033	5.68	5.80	200
October 5, 2004	September 5, 2035	5.50	5.60	200
February 15, 2005	March 5, 2037	5.09	5.00	150
May 6, 2005	March 5, 2037	5.07	5.00	150
February 24, 2006	March 5, 2037	4.71	5.00	100
March 6, 2007	June 1, 2040	4.49	4.75	100
April 2, 2008	June 1, 2040	4.67	4.75	250
December 19, 2008	June 1, 2040	4.71	4.71	100
				$ 2,475

Non-recourse debt

Date of issue	Date of maturity	Effective interest rate (%)	Coupon rate (%)	Outstanding amount
April 26, 2001	March 31, 2009, to December 31, 2025	7.87	7.59	$ 43
April 26, 2001	March 31, 2009, to June 30, 2026	7.88	7.60	39
October 4, 2002	March 31, 2009, to December 31, 2011	Floating	B.A.[1] + margin	2
				$ 84

1. A Banker's Acceptance is an instrument that is created by a non-financial firm and accepted and guaranteed by the bank. This rate is based on the average rates from eight Canadian banks with the high and low rates omitted from the average. The margin ranges from 1.0% to 1.375%.

As at December 31, 2008, scheduled principal debt retirement requirements for the next five years are as follows:

		2009		2010		2011		2012		2013
Recourse debt	$	3	$	–	$	–	$	–	$	97
Non-recourse debt		4		4		4		4		4
	$	7	$	4	$	4	$	4	$	101

18. OTHER LIABILITIES (in millions)

		2008		2007
Asset retirement obligations	**$**	**53**	$	34
Environmental remediation liabilities		**54**		54
Other benefit plans *(Note 28)*		**43**		42
	$	**150**	$	130

Asset retirement obligations

A reconciliation between the opening and closing asset retirement obligations balance is provided below:

		2008		2007
Asset retirement obligations, beginning of year	**$**	**34**	$	32
Liabilities incurred in the period		**16**		–
Liabilities removed in the period		**–**		–
Accretion expense		**3**		2
Asset retirement obligations, end of year	**$**	**53**	$	34

SaskPower estimates the undiscounted amount of cash flows required to settle the asset retirement obligations is approximately $176, which will be incurred between 2009 and 2045. The majority of these costs will be incurred between 2027 and 2036. Credit-adjusted risk-free rates between 4.60% and 6.04% were used to calculate the carrying values of the asset retirement obligations. No funds have been set aside by the Corporation to settle the asset retirement obligations.

Environmental remediation liabilities

Environmental remediation liabilities represent expected environmental expenditures related to present or past activities of the Corporation.

Other benefit plans

Other benefit plans include the liability for a defined benefit and defined contribution severance plan, a supplementary superannuation plan, and various early retirement plans.

19. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (in millions)

		2008		2007
Unrealized losses on interest rate swaps	**$**	**(1)**	$	–
Unrealized gains on natural gas hedges in prior periods		**–**		2
	$	**(1)**	$	2

20. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

21. FINANCIAL INSTRUMENTS (in millions)

The following summarizes the classification, carrying amounts and fair values of the Corporation's financial instruments:

At December 31		2008		2007	
		Asset (liability)		Asset (liability)	
Financial instrument	**Classification[4]**	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial assets					
Cash and cash equivalents	HFT[1]	**$ 6**	**$ 6**	$ 84	$ 84
Accounts receivable and unbilled revenue	L&R[2]	**180**	**180**	185	185
Debt retirement funds	HFT[1]	**212**	**212**	237	237
Investment	HFT[1]	**2**	**2**	2	2
Financial liabilities					
Accounts payable and accrued liabilities	OL[3]	**$ (168)**	**$ (168)**	$ (166)	$ (166)
Accrued interest	OL[3]	**(48)**	**(48)**	(54)	(54)
Dividends payable	OL[3]	**(8)**	**(8)**	(31)	(31)
Recourse debt	OL[3]	**(2,496)**	**(2,992)**	(2,480)	(3,037)
Non-recourse debt	OL[3]	**(82)**	**(89)**	(85)	(97)

1. HFT – held-for-trading
2. L&R – loans and receivables
3. OL – other liabilities
4. The Corporation has not classified any of its financial instruments as either held-to-maturity or available-for-sale.

Fair values are determined as follows:

(a) Debt retirement funds are valued at the closing year-end unit prices received from the Saskatchewan Ministry of Finance;

(b) Investment is valued using an internal valuation technique based on management's assumptions;

(c) Long-term debt instruments are valued at year-end market prices for the underlying debt issues or, when unavailable, for similar instruments; and

(d) Other financial instruments – including cash and cash equivalents; accounts receivable and unbilled revenue; accounts payable and accrued liabilities; accrued interest and dividends payable – approximate fair value due to the short period to maturity.

Risk management assets and liabilities

The following summarizes the market value gains and losses on the Corporation's risk management activities:

At December 31	Classification	2008 Asset	2008 Liability	2007 Asset	2007 Liability	2008 market gains (losses)
Natural gas contracts						
Two-way collars	HFT[1]	**$ 1**	**$ (3)**	$ 4	$ (4)	**$ (2)**
Fixed price swap instruments	HFT[1]	**1**	**(36)**	–	(10)	**(25)**
Electricity trading contracts						
Contract for differences	HFT[1]	–	–	–	–	–
Forward agreements	HFT[1]	–	–	–	–	–
		$ 2	**$ (39)**	$ 4	$ (14)	**$ (27)**

1. HFT – held-for-trading

Fair values are determined as follows:

(a) Natural gas derivative option instruments (i.e. collars) are valued based on estimates provided by the financial counterparties;

(b) Natural gas swap instruments are valued using an internal pricing model that uses market data, including average forward monthly natural gas prices obtained from financial counterparties; and

(c) Electricity trading derivatives, including contracts for differences and forward agreements are valued at year-end market prices.

22. FINANCIAL RISK MANAGEMENT (in millions)

Market risk

By virtue of its operations, the Corporation is exposed to changes in commodity prices, interest rates, and foreign exchange rates. SaskPower may utilize derivative financial instruments to manage these exposures. The Corporation mitigates risk associated with derivative financial instruments through Board-approved policies, limits on use and amount of exposure, internal monitoring, and compliance reporting to senior management and the Board.

Natural gas contracts

The Corporation is exposed to natural gas price risk through gas purchased for its natural gas-fired power plants and through certain power purchase agreements that have a cost component based on the market price of natural gas. As at December 31, 2008, the Corporation had entered into financial natural gas contracts to hedge approximately 45% of its forecasted natural gas purchases for 2009, 6% for 2010 and 2% for 2011.

Based on the Corporation's December 31, 2008, closing positions on its natural gas hedges, a one dollar per gigajoule (GJ) increase in the price of natural gas would have resulted in a $20 decrease in the unrealized market value losses recognized in net income for the year. This sensitivity analysis does not represent the underlying exposure to changes in the price of natural gas on the remaining forecasted natural gas purchases which are unhedged as at December 31, 2008.

Electricity trading contracts

The Corporation is also exposed to electricity price risk on its electricity trading activities. Electricity trading risks are managed through limits on the size and duration of transactions and open positions, including Value at Risk (VaR) limits. VaR is the most commonly used metric employed to track and manage the market risk associated with trading positions. A VaR measure gives, for a specific confidence level, an estimated maximum loss that could be incurred over a specified period of time. VaR at December 31, 2008, associated with electricity trading activities was $1.

Debt retirement funds

Debt retirement funds are monies set aside to retire outstanding debt upon maturity. The Corporation is required to pay annually into debt retirement funds which are held and invested by the Province of Saskatchewan – General Revenue Fund. The Corporation has classified these investments as held-for-trading and therefore recognized the change in the market value in net income for the period. The impact of fluctuations in market prices related to these investments is not considered significant to the Corporation and, therefore, a sensitivity analysis of the impact on net income has not been provided.

Interest rate

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on future short and long-term borrowings. Interest rate risk on these expected future borrowings are managed based on the refinancing needs of the Corporation using derivative financial instruments when deemed appropriate. The Corporation has not provided a sensitivity analysis of the impact of interest rate changes on net income as substantially all of the Corporation's debt is at fixed rates as at December 31, 2008.

Foreign exchange

The Corporation faces exposure to the U.S./Canadian dollar exchange rate primarily through the sale of electricity to customers in the U.S., as well as from the purchase of goods and services that are payable in U.S. dollars. The Corporation may utilize financial instruments to manage this risk. As at December 31, 2008, the Corporation had no outstanding foreign exchange derivative contracts. The impact of fluctuations in foreign exchange rates on anticipated sales or purchases is not considered significant to the Corporation and, therefore, a sensitivity analysis of the impact on net income has not been provided.

Credit risk

Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. Concentrations of credit risk relate to groups of customers or counterparties that have similar economic or industry characteristics that cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Corporation does not have a significant concentration of credit risk. The maximum credit risk to which the Corporation is exposed as at December 31, 2008, is limited to the fair value of the financial assets recognized as follows:

Financial assets		**December 31, 2008**
Cash and cash equivalents	**$**	**6**
Accounts receivable and unbilled revenue		**180**
Risk management assets		**2**
Debt retirement funds		**212**
Investment		**2**
	$	**402**

(a) Cash and cash equivalents include short-term investments that have a maturity date of 90 days or less from the date of acquisition. Short-term investments are invested in accordance with Board-approved credit policies and limits in respect to short-term investments. The credit risk related to these investments is considered low.

(b) Accounts receivable and unbilled revenue is diversified among many residential, farm and commercial customers primarily throughout Saskatchewan. The following reflects an aging summary of the Corporation's customer accounts receivable balances for both electricity and non-electricity sales at December 31, 2008:

		December 31, 2008
Current	**$**	**171**
30 – 59 days		**6**
60 – 89 days		**3**
Greater than 90 days		**2**
	$	**182**
Allowance for doubtful accounts		**(1)**
Customer down payment		**(5)**
Miscellaneous receivables		**4**
	$	**180**

The allowance for doubtful accounts is reviewed quarterly based on an estimate of outstanding amounts that are considered uncollectible. Historically, the Corporation has not written-off a significant portion of its accounts receivable balances.

(c) SaskPower is also exposed to credit risk arising from derivative financial instruments if a counterparty fails to meet its obligations. The Corporation maintains Board-approved credit policies and limits in respect to its counterparties.

(d) Debt retirement funds are on deposit with Province of Saskatchewan - General Revenue Fund and invested as the Minister of Finance may determine. At December 31, 2008, the Minister has invested these funds primarily in Provincial government and Federal government bonds with varying maturities to coincide with related long-term debt maturities and are managed based on this maturity profile and market conditions. As such, the related credit risk associated with these investments as at December 31, 2008, is considered low.

(e) The investment in Aurora Trust Series A Asset-Backed Commercial Paper (Aurora) was purchased on May 31, 2007, with a maturity date of August 31, 2007. As a result of market concerns about asset-backed commercial paper in Canada and the United States that resulted in the inability of the non-bank trust administrators to refinance maturing borrowings, SaskPower did not receive the principal it had invested in Aurora at maturity. The Pan-Canadian Investors Committee, which was established to restructure the affected asset-backed commercial paper, announced on January 21, 2009, that the restructuring had been completed. As a result, the Aurora investment has been converted to longer-term interest paying notes, which will be paid off as the underlying assets mature. The investment is recorded at its estimated fair value at December 31, 2008, and is recognized in other assets on the statement of financial position.

Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial commitments as they become due or can do so only at excessive cost. SaskPower manages cash resources based on financial forecasts and anticipated cash flows. The following summarizes the contractual maturities of the Corporation's financial liabilities:

Financial liabilities	Carrying amount	Contractual cash flows	Contractual cash flows: 0 – 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Accounts payable and accrued liabilities	$ 168	$ 168	$ 168	$ –	$ –	$ –	$ –
Accrued interest	48	48	48	–	–	–	–
Risk management liabilities	39	39	39	–	–	–	–
Dividends payable	8	8	8	–	–	–	–
Recourse debt	2,496	5,817	34	86	164	590	4,943
Non-recourse debt	82	143	5	5	10	28	95
	$ 2,841	$ 6,223	$ 302	$ 91	$ 174	$ 618	$ 5,038

Management believes its ability to generate and acquire funds will be adequate to support these financial liabilities.

23. CAPITAL MANAGEMENT (in millions)

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies for the Corporation. SaskPower raises most of its capital requirements through internal operating activities and through funds obtained by borrowing from the Saskatchewan Ministry of Finance. This type of borrowing allows the Corporation to take advantage of the Province of Saskatchewan's strong credit rating. *The Power Corporation Act* provides the Corporation with the authority to have outstanding borrowings of up to $5,000 of which $750 may be by way of temporary loans. SaskPower also has available credit of $51 at financial institutions that it can draw upon.

The Corporation's capital structure consists of gross long-term debt net of debt retirement funds and cash and cash equivalents; and equity, excluding accumulated other comprehensive (loss) income. The Corporation monitors its capital structure using the per cent debt ratio. The long-term per cent debt ratio target is 60%. The per cent debt ratio is calculated as net debt[1] divided by total capital as follows:

	December 31, 2008
Gross long-term debt	**$ 2,578**
Debt retirement funds	**(212)**
Cash and cash equivalents	**(6)**
Total net debt[1]	**2,360**
Equity advances	**660**
Retained earnings	**870**
Total capital	**$ 3,890**
Per cent debt ratio	**60.7%**

1 Net debt is a non-GAAP measure, whose nearest GAAP measure is long-term debt.

The per cent debt ratio at December 31, 2008, was 60.7% (2007 - 59.7%).

24. COMMITMENTS AND CONTINGENCIES (in millions)

(a) The Corporation has entered into power purchase agreements expected to cost $6,194 (2007 – $5,634) until 2028 and provide approximately 469 MW of generating capacity.

(b) SaskPower has entered into contracts to purchase natural gas expected to cost $95 (2007 – $89) based on forward market prices until 2011. This includes fixed price forward contracts with a notional value of $13 (2007 – $nil) for which the Corporation has elected to use the own-use exemption.

(c) At 2008 prices, the Corporation also has forward commitments of $1,496 (2007 – $1,636) extending until 2024 for future minimum coal deliveries.

(d) The Corporation is forecasting to spend $954 on capital projects in 2009.

(e) Through the Energy Performance Contracting Program, the Corporation has guaranteed $13 (2007 – $7) of energy savings to various customers. The Energy Performance Contracting Program is a comprehensive facility improvement initiative designed to enhance the facilities of the customer while permanently reducing utility costs. These guarantees are offset by third party guarantees to SaskPower that ensure the energy savings are realized.

(f) SaskPower has committed to electricity sales of $15 (2007 – $5) and electricity purchases of $11 (2007 – $5). These contracts are considered derivative financial instruments and changes in their fair value have been included in net income.

(g) The Corporation has issued letters of credit and promissory notes in the amount of $4 (2007 – $8) related to electricity trading activities and physical natural gas purchases. In 2007, a $5 promissory note was provided as acceptable credit support for project lenders in respect of the debt coverage service ratio requirements for the Cory Cogeneration Station. This promissory note was not required for the 2008 year-end.

(h) A legal action was commenced in 1996 by an individual, in a representative capacity, on behalf of members of the Power Corporation Superannuation Plan (PCSP, the defined benefit pension plan). The claim alleges the Corporation has inappropriately ceased making contributions to the PCSP; incorrectly offered employees early retirement with unreduced pensions; and did not provide sufficient information to allow employees to make an informed decision regarding the choice to either stay within the PCSP or move into the Public Employees Pension Plan.

Since 1996, various legal proceedings have taken place to properly define the claim. A pre-trial conference took place on dates in the second and fourth quarters of 2008. The trial is expected to take place in 2009. It is the Corporation's position that the final outcome from the claim is not determinable. As such, no provision has been set up to cover any potential settlement or adverse disposition.

SaskPower has various other legal matters pending, which in the opinion of management, will not have a material effect on SaskPower's consolidated financial position or results of operations.

25. NET CHANGE IN NON-CASH WORKING CAPITAL (in millions)

	2008	2007
Accounts receivable and unbilled revenue	**$ 5**	$ (5)
Inventory	**(7)**	(13)
Prepaid expense	**2**	7
Accounts payable and accrued liabilities	**2**	12
Accrued interest	**(6)**	(1)
	$ (4)	$ –

26. JOINT VENTURES (in millions)

(a) The Corporation holds a 50% interest in an unincorporated joint venture with ATCO Power Canada Ltd. The joint venture owns and operates a 228-MW natural gas-fired cogeneration plant (Cory Cogeneration Station) near Saskatoon, Saskatchewan.

(b) The Corporation holds a 50% interest in Cory Cogeneration Funding Corporation (CCFC). CCFC is a special purpose company established by the Corporation and ATCO Power Canada Ltd. (the Owners) to borrow long-term, non-recourse debt to finance the Cory Cogeneration Station. CCFC acts as agent for the Owners by receiving revenues, disbursing costs (including debt service) and distributing proceeds to the Owners.

(c) The Corporation's interest in joint ventures is summarized below:

	2008	2007
Statement of income		
Revenue	**$ 20**	$ 18
Operating, maintenance and administration	**(5)**	(5)
Depreciation	**(5)**	(5)
Finance charges	**(6)**	(6)
Income from joint ventures	**$ 4**	$ 2
Statement of financial position		
Current assets	**$ 4**	$ 4
Property, plant and equipment	**113**	116
Current liabilities	**(5)**	(4)
Non-recourse long-term debt	**(78)**	(82)
Other liabilities	**(1)**	(1)
Investment in joint ventures	**$ 33**	$ 33
Statement of cash flows		
Operating activities	**$ 10**	$ 6
Investing activities	**(1)**	(1)
Financing activities	**(7)**	(6)
Increase (decrease) in cash	**$ 2**	$ (1)

Current assets include cash of $2 (2007 – $nil) which is only available for use within the joint ventures.

27. RELATED PARTY TRANSACTIONS (in millions)

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year-end are as follows:

	2008	2007
Revenue	**$ 114**	$ 113
Expense	**275**	283
Dividends declared	**46**	97
Accounts receivable and unbilled revenue	**3**	5
Property, plant and equipment	**26**	–
Accounts payable and accrued liabilities	**10**	10
Accrued interest	**48**	54
Dividends payable	**8**	31

Included in the above, in October 2008, SaskPower purchased property from Saskatchewan Transportation Company. This purchase was accounted for as a related party transaction and as such, the excess of consideration paid over the net book value of the property was charged to retained earnings ($1).

In the prior year, SaskPower sold property to Ministry of Government Services (formerly Saskatchewan Property Management). This sale was also accounted for as a related party transaction and as such, the excess of consideration received over the net book value of the property was credited to retained earnings ($2).

The Corporation also pays Saskatchewan provincial sales tax on all its taxable purchases to the Saskatchewan Ministry of Finance. Taxes paid are recorded as part of the cost of those purchases.

28. EMPLOYEES' FUTURE BENEFITS (in millions)

Defined benefit pension plan

The Corporation sponsors a defined benefit pension plan (the Plan) that has been substantially closed to employees since 1977. The measurement date of the latest actuarial valuation used to determine the Plan assets and obligations was September 30, 2008. Accordingly, the significant turmoil affecting the capital markets since September 30 is not reflected in either the 2008 funded status of the Plan or the 2008 pension expense at the end of the fiscal year.

The effective date of the most recent actuarial valuation for funding purposes was December 31, 2007. Under current Canada Revenue Agency guidelines, an actuarial valuation for funding purposes is to be completed at a minimum, every 3 years. However, the Corporation has committed to request an actuarial valuation for funding purposes in 2009 with an effective date of December 31, 2008.

The defined benefit pension plan is solely the obligation of the Corporation. The Corporation is not obligated to fund the Plan but is obligated to pay benefits under the terms of the Plan as they come due.

(a) Status of the Plan

The actuarial valuation measured at September 30, 2008, showed that the Plan had an actuarial deficit of $106 (2007 – surplus of $9). The decline in the funded status of the Plan was predominantly due to negative returns earned on the Plan's assets. The calculation of the pension plan (deficit) surplus is as follows:

	2008	2007
Plan assets		
Fair value, beginning of year	**$ 836**	$ 790
Actual return on plan assets	**(95)**	86
Employee funding contributions	**2**	2
Benefits paid	**(44)**	(42)
Fair value, end of year	**699**	836
Accrued benefit obligation		
Balance, beginning of year	**827**	836
Current service cost	**8**	9
Interest cost	**47**	43
Benefits paid	**(44)**	(42)
Actuarial gain	**(33)**	(19)
Balance, end of year	**805**	827
Plan (deficit) surplus at September 30	**$ (106)**	$ 9

For accounting purposes, an asset of $17 (2007 – $28) has been recorded in other assets on SaskPower's consolidated statement of financial position at December 31, 2008. The difference between the value reported as the Plan (deficit) surplus and the value recorded on SaskPower's consolidated statement of financial position is due to the CICA requirement to base the valuation of the Plan for accounting purposes on long-term actuarial assumptions rather than on actual experience.

Below is a reconciliation of the Plan (deficit) surplus and the value of the Plan recorded on SaskPower's consolidated statement of financial position:

		2008		2007
Plan (deficit) surplus	**$**	**(106)**	$	9
Add: unamortized net actuarial loss (gain) not yet recorded		**108**		(9)
Add: unamortized past service costs		**15**		28
Defined benefit pension asset recorded in other assets	**$**	**17**	$	28

There are two significant reconciling items. The first item relates to the unamortized net actuarial loss (gain). This loss (gain) is made up of the accumulated difference between the actual returns and obligations of the Plan and the expected returns and obligations of the Plan based upon the long-term actuarial assumptions. The second item relates to the unamortized past service costs. These costs relate to legislation introduced by the Government of Saskatchewan in 2006 that amended the Plan to provide regular benefit increases equal to 70% of the increase in the Saskatchewan CPI.

(b) Benefit expense

In 2008, using long-term assumptions as noted in (c), the Corporation recorded a non-cash pension expense of $11 (2007 – $8). This amount was recorded in the Corporation's operating, maintenance and administration expense. The following is a summary of the calculation of the pension expense:

		2008		2007
Cost arising from events during the year				
SaskPower's current service cost	**$**	**6**	$	7
Interest on accrued benefit obligation		**47**		43
Actual return on plan assets		**95**		(86)
Actuarial gain on accrued benefit obligation		**(33)**		(19)
Future benefit costs (credits) before adjustments		**115**		(55)
Adjustments to recognize the long-term nature of cost				
Difference between actual and expected return on plan assets		**(150)**		36
Amortization of past service costs		**13**		13
Amortization of transitional asset		**–**		(5)
Difference between amortization of net actuarial loss (gain) and actual actuarial gain on accrued benefit obligation		**33**		19
Total adjustments		**(104)**		63
Pension expense recorded in operating, maintenance and administration	**$**	**11**	$	8

(c) Assumptions

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation at September 30 are:

	2008	2007
Discount rate, beginning of year	**5.75%**	5.25%
Discount rate, end of year	**6.25%**	5.75%
Expected long-term rate of return on plan assets, beginning of year	**6.75%**	6.50%
Expected long-term rate of return on plan assets, end of year	**6.75%**	6.75%
Long-term rate of compensation increases	**3.50%**	3.50%
Remaining service life (years)	**2.56**	3.22
Long-term inflation rate	**2.50%**	2.50%
Assumptions for benefit increases (percentage of CPI)	**70.00%**	70.00%

The actuarial assumptions are based on management's expectations, independent actuarial advice and guidance provided by CICA. Two of the most significant assumptions are the discount rate and expected long-term rate of return on plan assets. The discount rate has been increased in 2008 to better reflect the spot yield for high-grade, long-term Canadian corporate bonds. The expected long-term rate of return on Plan assets is based upon the asset mix of the Plan and expected returns for each asset class.

(d) Benefit plan asset allocation

	2008	2007
Equity securities	**60.3%**	66.6%
Debt securities	**39.0%**	32.8%
Cash and short-term securities	**0.7%**	0.6%
	100.0%	100.0%

(e) Benefit payments

The benefit payments expected to be made to beneficiaries over the next five years are as follows:

	2009	**2010**	**2011**	**2012**	**2013**
Expected benefit payments	$ 49	$ 56	$ 61	$ 65	$ 67

Defined contribution pension plan

Under the defined contribution pension plan, the Corporation's obligations are limited to the contributions for current service. These contributions are charged to income when made. The net expense for the defined contribution pension plan is as follows:

	2008	2007
Defined contribution pension plan expense	**$ 10**	$ 9

Other benefit plans

Other benefit plans include a defined benefit and a defined contribution severance plan, a supplementary superannuation plan and a voluntary early retirement plan. A reconciliation between the opening and closing accrued benefit obligations balance is provided below:

	2008	2007
Accrued benefit obligations		
Balance, beginning of year	**$ 42**	$ 38
Expense	**10**	13
Benefits paid	**(9)**	(9)
Balance, end of year	**$ 43**	$ 42
Present value of accrued benefit obligations	**$ 56**	$ 57

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations at September 30 are:

	2008	2007
Discount rate	**5.50% – 6.25%**	5.25% - 5.75%
Long-term rate of compensation increases	**3.50%**	3.50%
Remaining service life (years)	**9.06**	9.70

29. COMPARATIVE FIGURES

Certain amounts for the prior year have been reclassified to conform with current year financial statement presentation.

FIVE-YEAR FINANCIAL SUMMARY

(in millions)	2008	2007	2006	2005	2004
Consolidated statement of income					
Revenue					
Saskatchewan electricity sales	**$ 1,385**	$ 1,356	$ 1,269	$ 1,181	$ 1,132
Exports	**33**	57	29	68	66
Net sales from electricity trading	**17**	11	15	9	4
Other revenue	**54**	45	40	31	28
Total revenue	**1,489**	1,469	1,353	1,289	1,230
Operating costs					
Fuel and purchased power	**554**	463	478	459	478
Realized natural gas risk management activities	**(9)**	18	20	(5)	(5)
Operating, maintenance and administration	**430**	416	360	336	317
Depreciation	**234**	219	207	189	189
Finance charges	**153**	167	161	147	157
Taxes	**35**	35	34	32	28
Total operating costs	**1,397**	1,318	1,260	1,158	1,164
Operating income	**$ 92**	$ 151	$ 93	$ 131	$ 66
Unrealized natural gas risk management activities	**(28)**	(13)	–	–	–
Net income	**$ 64**	$ 138	$ 93	$ 131	$ 66
Consolidated statement of financial position					
Assets					
Current assets	**$ 335**	$ 418	$ 354	$ 365	$ 371
Property, plant and equipment	**3,901**	3,734	3,695	3,616	3,344
Debt retirement funds	**212**	237	201	170	140
Other assets	**72**	86	114	120	115
Total assets	**$ 4,520**	$ 4,475	$ 4,364	$ 4,271	$ 3,970
Liabilities and equity					
Current liabilities	**$ 270**	$ 605	$ 312	$ 294	$ 292
Long-term debt	**2,571**	2,225	2,449	2,415	2,106
Other liabilities	**150**	130	135	126	182
Equity	**1,529**	1,515	1,468	1,436	1,390
Total liabilities and equity	**$ 4,520**	$ 4,475	$ 4,364	$ 4,271	$ 3,970
Consolidated statement of cash flows					
Cash provided by operating activities	**$ 320**	$ 373	$ 255	$ 297	$ 289
Cash used in investing activities	**(377)**	(248)	(258)	(457)	(289)
Cash (used in) provided by financing activities	**(21)**	(61)	(42)	121	100
(Decrease) increase in cash position	**$ (78)**	$ 64	$ (45)	$ (39)	$ 100
Financial indicators					
Dividends	**$ 46**	$ 97	$ 61	$ 85	$ 59
Capital expenditures	**422**	280	285	473	301
Operating return on equity	**5.9%**	10.1%	6.4%	9.2%	4.8%
Return on equity	**4.2%**	9.3%	6.4%	9.2%	4.8%
Per cent debt ratio	**60.7%**	59.7%	61.0%	60.9%	58.2%

FIVE-YEAR REVENUE STATISTICS

	2008	2007	2006	2005	2004
Number of Saskatchewan electricity customers					
Residential	**328,719**	321,183	315,203	311,736	308,659
Farm	**62,712**	63,384	64,273	65,110	66,099
Commercial	**54,563**	53,917	53,574	53,008	52,911
Oilfield	**13,932**	13,147	12,437	11,757	11,409
Power	**78**	80	80	79	85
Reseller	**2**	2	2	2	2
	460,006	451,713	445,569	441,692	439,165
Total electricity sales (in millions)					
Residential	**$ 322**	$ 311	$ 288	$ 269	$ 255
Farm	**125**	127	118	121	118
Commercial	**297**	292	279	267	255
Oilfield	**203**	192	176	158	146
Power	**366**	362	337	302	298
Reseller	**72**	72	71	64	60
Saskatchewan electricity sales	**1,385**	1,356	1,269	1,181	1,132
Exports	**33**	57	29	68	66
Total electricity sales	**$ 1,418**	$ 1,413	$ 1,298	$ 1,249	$ 1,198
Total electricity sales (GWh)					
Residential	**2,721**	2,643	2,531	2,514	2,484
Farm	**1,306**	1,329	1,272	1,337	1,350
Commercial	**3,311**	3,269	3,239	3,200	3,132
Oilfield	**2,682**	2,541	2,399	2,264	2,165
Power	**6,898**	6,854	6,666	6,552	6,502
Reseller	**1,274**	1,287	1,293	1,266	1,261
Saskatchewan electricity sales	**18,192**	17,923	17,400	17,133	16,894
Exports	**409**	851	480	1,048	1,002
Total electricity sales	**18,601**	18,774	17,880	18,181	17,896
Average electricity sales price ($/MWh)					
Residential	**$ 118**	$ 118	$ 114	$ 107	$ 103
Farm	**96**	96	93	91	87
Commercial	**90**	89	86	83	81
Oilfield	**76**	76	73	70	67
Power	**53**	53	51	46	46
Reseller	**57**	56	55	51	48
Exports	**81**	67	60	65	66
Total weighted average electricity sales price	**$ 76**	$ 75	$ 73	$ 69	$ 67
Average annual usage per residential customer (kWh)	**8,278**	8,229	8,030	8,065	8,048
Electricity trading					
Electricity trading sales (in millions)	**$ 125**	$ 125	$ 118	$ 46	$ 31
Electricity trading sales (GWh)	**1,813**	1,897	1,649	622	536

FIVE-YEAR GENERATING AND OPERATING STATISTICS

	2008	2007	2006	2005	2004
Net electricity supplied (GWh)					
Coal	**11,405**	11,661	11,102	11,467	12,191
Gas	**3,812**	3,545	3,556	3,234	3,729
Hydro	**4,030**	4,393	4,032	4,573	2,746
Wind	**574**	620	573	92	74
Imports	**587**	316	451	481	960
Other	**72**	36	–	–	–
Gross electricity supplied	**20,480**	20,571	19,714	19,847	19,700
Line losses	**(1,879)**	(1,797)	(1,834)	(1,666)	(1,804)
Net electricity supplied	**18,601**	18,774	17,880	18,181	17,896

Available generating capacity (net MW)					
Coal	**1,682**	1,661	1,661	1,651	1,651
Gas	**913**	976	976	976	976
Hydro	**854**	854	854	854	854
Wind	**172**	172	172	22	22
Other	**20**	5	5	–	–
	3,641	3,668	3,668	3,503	3,503
Peak loads (net MW)					
Annual peak load	**3,194**	2,969	2,960	2,946	2,954
Minimum load	**1,664**	1,583	1,510	1,482	1,466
Summer peak load	**2,834**	2,879	2,706	2,639	2,591
Lines in service (km)					
Transmission lines	**12,311**	12,216	12,212	12,159	12,149
Distribution lines	**144,350**	143,602	142,843	142,110	141,408
	156,661	155,818	155,055	154,269	153,557
Number of permanent full-time employees	**2,541**	2,488	2,458	2,425	2,397

SYSTEM MAP

As at December 31, 2008

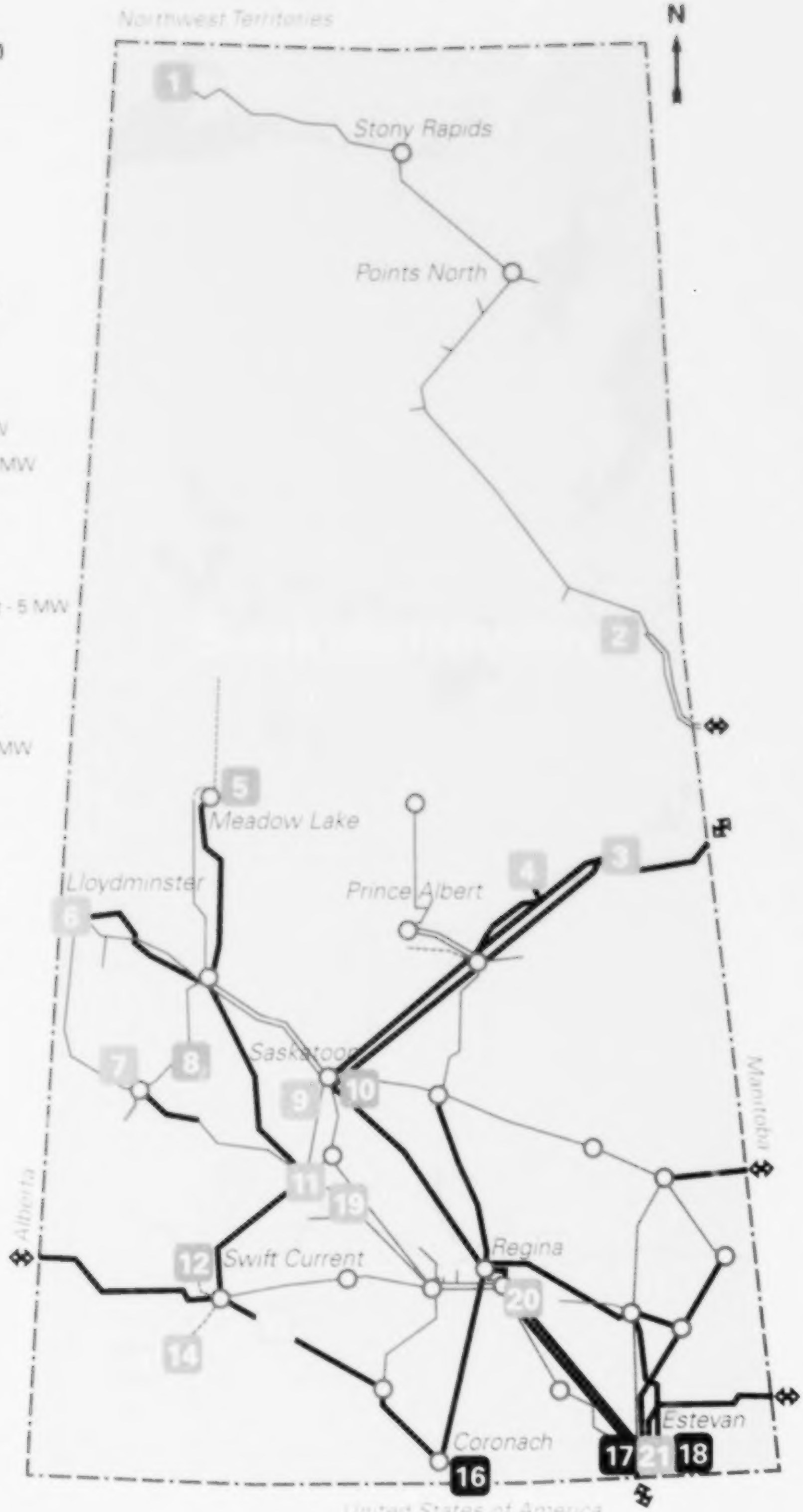
AVAILABLE GENERATION (net capacity)

- Hydroelectric
- Natural gas
- Wind
- Coal
- Independent Power Producer

1. Athabasca Hydroelectric System - 23 MW
   - Wellington (5 MW)
   - Waterloo (8 MW)
   - Charlot River (10 MW)
2. Island Falls Hydroelectric Station - 102 MW
3. E.B. Campbell Hydroelectric Station - 288 MW
4. Nipawin Hydroelectric Station - 255 MW
5. Meadow Lake Power Station - 44 MW
6. Meridian Cogeneration Station - 210 MW
7. NRGreen Kerrobert Heat Recovery Project - 5 MW
8. Landis Power Station - 79 MW
9. Cory Cogeneration Station - 228 MW
10. Queen Elizabeth Power Station - 322 MW
11. Coteau Creek Hydroelectric Station - 186 MW
12. Success Power Station - 30 MW
13. Cypress Wind Power Facility - 11 MW
14. SunBridge Wind Power Project - 11 MW
15. Centennial Wind Power Facility - 150 MW
16. Poplar River Power Station - 582 MW
17. Boundary Dam Power Station - 824 MW
18. Shand Power Station - 276 MW
19. NRGreen Loreburn Heat Recovery Project - 5 MW
20. NRGreen Estlin Heat Recovery Project - 5 MW
21. NRGreen Alameda Heat Recovery Project - 5 MW

TRANSMISSION

- 230 kV
- 138 kV
- 138 kV line operating at 72 kV
- Switching station
- Interconnection



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On the back cover

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